PRESENT-DAY BANKING IN INDIA

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BY

B. RAMACHANDRA RAU, M.A.,
LECTURER, CALCUTTA UNIVERSITY



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To

The Hon'ble SIR ASUTOSH MOOKERJEE,

Kt., C.S.I.,

This book is respectfully dedicated by the

author as a token of his affection,

admiration, respect and

gratitude.

PREFACE

The Banking Crisis of 1913-15 swept away many of the "mushroom" banks and weakened our banking system to a great extent. Close upon its heels came the War, but it proved a blessing in disguise and the Indian Banking system was improved, reorganised and strengthened to a great extent.

But much remains to be done to perfect our Banking system. With the exception of the leaders of the Co-operation movement our Indian publicists and Commercial leaders are not evincing much zeal in the matter.

This little book describes the existing banking system and offers certain suggestions to bring about the much needed improvement in our credit situation. But a soundly organised banking system cannot be established as long as our monetary system is liable to frequent and sudden changes in the value of the different forms of money of which it is composed.

I take this opportunity to express my gratitude to the authorities of the Post-graduate department of this University who paid part expenses of my tour which had to be undertaken

to study the system of indigenous banking in some of the prominent commercial centres of our country.

I have to thank the editors of the Indian Review, the Calcutta Review and the compilers of Sir Asutosh Mookerjee Silver Jubilee Volumes for permitting me to make use of some of my contributions previously published by them.

I owe my sincere thanks to Dr. P. Banerjee, the Minto Professor of Economics, and Prof. S. C. Ray for their kind encouragement and useful suggestions in the preparation of this book.

SENATE HOUSE,
11th April, 1922.

B. RAMCHANDRA RAU.

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CHAPTER I

THE INDIAN MONEY MARKET

"Cash rules the camp, the court and the grove" said Lord Byron and Mr. H. D. Macleod in his misguided enthusiasm that 'Credit is equivalent to cash' would have said that not cash but credit, that rules the camp, the court and the grove. Whatever might have been the opinion of the amatory poet or the enthusiastic economist one finds that commerce and agriculture like other industries are supported on credit. In order that agricultural and industrial opportunities may be put to profitable use, credit is necessary and that credit can be supplied in a well-developed money market. The money market is the place where the borrowers of money and the lenders of money meet together. A fully organised system of credit can never exist without its indispensable concomitant, a well developed money market. The

development of the one leads to the perfection of the other and *vice versa*.

The Indian money market is generally divided into (1) the European Money Market consisting of (*i*) the Presidency Banks, (*ii*) the European Exchange Banks ; (2) the Indian or Native Money Market consisting of (*i*) the Indian Joint Stock Banks, (*ii*) the Shroffs, indigenous bankers and money-lenders. It is these that furnish the needed credit in our Money Market. The Co-operative Credit Societies have recently arisen and their main mission is to finance the agriculturist and the petty artisan of the towns. The borrowers of money are (1) the Government of India who annually float Rupee Loans in summer months ; (2) the Agriculturists ; (3) the Entrepreneurs ; (4) the Indian people who need money for performing social functions, say, marriages, Sraddhas and other performances that have to be gone through by people bed-ridden by doctrines of Karma. The business of the Money Market is to furnish the needed credit for all these people.

A close survey of the Indian Money Market displays the following characteristic features. There is not plenty of loanable money in the market to satisfy all these demands.

Secondly, credit has not been thoroughly studied and specialised in all its various forms

and manifestations by perfectly organised institutions as we find in the case of other countries notably Germany and Japan. Credit is divided generally into "Long-term Credit" and "Short-term Credit." Mortgage or "Long-term Credit," is now undertaken by wealthy individuals and usurious money-lenders much to the chagrin and disadvantage of the borrowers who are shamefacedly being exploited according to the urgency of their needs. Personal or "Short-term" Credit is given on the strength of the general standing of the borrower or of his surety and it is generally granted for short periods. In the towns this business is mainly in the hands of Joint Stock Banks and in villages the Co-operative Credit Societies are trying to meet the needs of the cultivators, but even in this case also the predominance of the usurious individual money-lender is still markedly to be felt and this is the third characteristic feature of our money market, *viz.*, 'the predominance of the usurious individual money-lender.

Another characteristic feature of our money market is that very few systematic attempts are being made to develop the money power of the country by the existing banking institutions. Serious attempts have not been made in the past to induce the Indian people to leave off their unfertile habit of hoarding

small sums and turn their locked up funds into fertile channels of industry and enrich their productive fields. The value of the small account should be realised by the Indian Banks.[1]

The lack of a centralised Banking institution acting as a "guide, friend, and philosopher" to all the other minor institutions and the consequent lack of concentration of Reserves are also some of the prominent features of the Indian Money Market.

The existing credit system is totally lacking in elasticity and any extra demand for currency is not met by the expansion of banking credit. Lastly there is no bank rate policy understood and pursued by our leading bankers and the very absence of a Central Bank connotes the absence of a bank-rate policy.

Systematic attempts should be made to improve the Indian Money Market and the methods of improving the features noted already are successively dealt with in succeeding chapters and specially in the last chapter where suggestions for improving the banking system of our country are laid down. It only remains to be stated here that a well-organised system of finance should be built up and the oppressive influence and incubus

[1] In England a man can open a banking account with £5 only. The Indian Banks stipulate for a minimum figure of Rs. 200 or Rs. 300 for opening a bank account. They do not pay heed to the relative poverty of the Indian people.

of the individual money-lender should be eradicated. Credit should be thoroughly organised. It should be made cheap and should be placed near at hand to the borrowers. The paralysis of the existing credit system due to the insufficiency of the existing banking system should be put an end to. All sides of credit, *viz.*, long-term credit, short-term credit, industrial and agricultural credit, all should be specialised and thoroughly organised by the banking institutions of our country. The habit of thrift should be encouraged. The folly of improvidence should be check-mated. The people should be taught the usefulness of credit and its right use at the right time. Real and legitimate credit should be created. Since the economic progress of our country can be facilitated by a perfected credit system alone more attention should be paid to the study of the credit machine in our country. The present improvident system of financing agriculture by the money-lender must be given up. Agriculture must be placed on a prosperous footing. The raiyat who is now reduced to practical serfdom must be raised to the full dignity and high status of a citizen. All this can be accomplished by cheap and easy credit.

Unless and until the credit system of our country is thoroughly organised and perfected, the numerous advantages which British Rule has conferred on us cannot be enjoyed and the

beneficent work of the Government cannot be realised. As Sir Daniel Hamilton has said, "the present vicious system of finance by the money-lender sterilises the beneficent work of the Government." Thus the most important need of our country is credit. Real, legitimate and productive credit should be created to ensure success in commerce, agriculture and industry. There is room for plenty of credit institutions to rise in our country. Many classes of banks can arise without any detriment to the existing banking institutions. The present Joint Stock Bank is of great value so long as it has plenty of resources and so long as it is ably and skilfully managed. The Co-operative Bank is an essential requisite for every village and more of these wonder-working institutions should be created. It is not only these that have to be encouraged. Every class of institutions which provides cheap and safe credit is to be encouraged. They will have to find their due place in a fully organised credit system of our country.

The saving energy of our Indian people should be stimulated and directed into a broad stream of National finance. The extension of Banking facilities, or Stock Exchange and investment agencies of various orders coupled with the ever-increasing publicity of the press and of telegraphic facilities for communication of news and transfer of payments may increase the little

driblets of savings and turn them into a broad and navigable stream of finance which should be carefully distributed over the parched and arid tracts of our country with increasing rapidity and accuracy of judgment. Our investors should send solid and concrete capital to tap every corner of our country to find natural resources for profitable exploitation. This work of facilitating savings on the part of the community can be done by the credit institutions of our country.

The main function of our credit institutions should be to stimulate and collect the savings of the people, call forth habits of thrift, economy and prudence, guide their outlay into productive channels and give them credit for productive and useful purposes and stimulate productive activity of the people. Easy and effective credit should be the panacea for our numerous ills specially economic exhaustion and material resourcelessness. Unless a wisely planned banking system exists developing the money power of our country political or social reform will be of no avail in improving our situation. As Sir Daniel Hamilton has said "without a banking system which will develop the money power of our country the Reform Scheme or any scheme becomes a dead letter and the new Legislative Council a farce."

It is high time indeed that the pernicious view that a " banker is a mere parasite on the

real owners and producers of a country " should be given up. The view-point here is that the banker adds nothing to the wealth of a country. It is not the business of the banker to augment the capital of a country. "All he has to do is to make capital more active and productive than it would otherwise be the case. It is by this means alone that the judicious operations of banking can increase the industry of the country."[1]

Another great advantage of a perfected system of credit institutions to our country is that it will go a long way in solving some of the currency maladies of our country. Not only is the pernicious, unwise and profitless habit of hoarding small sums of capital made to melt as mist before the rising sun of the day but the much needed elasticity in our currency system would be obtained. When once the issuing of notes is handed over to the Imperial Bank as it has been contemplated to do so the note-issue is bound to enlarge and as more facilities for encashment of notes will be provided the note issue will be more popular and thereby it may diminish much of the strain on the Government for more metallic currency. It is an undisputed fact that banking extension makes for economy in metallic reserves so far as they are required for purposes of domestic

[1] Adam Smith: Wealth of the Nations. Edited by McCulloch, p. 257.

exchange. This central institution that is going to be created shortly is bound to remove many of the above defects of the Indian money market. It is bound to introduce a new page in the history of our banking system. It will inaugurate a new era remarkable for its closer co-operation and greater cohesion among the different banking institutions of our country. With a more common understanding of their aims and better realisation of their interests unity will prevail where hitherto discord and jealousy have reigned triumphant and with the cessation of mutual bickerings on the part of the different banking institutions of our country a glorious and prosperous future awaits all our productive industries and the banks themselves are bound to reap their own share of profit. As they sow, so will they reap.

It has been asserted that a thoroughly organised money market does not exist in India. The upholders of this contention point out that the Indian money market is not a separate and self-sufficient entity by itself. Its close dependence on the London money market for funds has been quoted as a proof of her subordination. Isolation, absence of specialisation and differentiation of function still mark our financial organism but like the human organism itself the financial organism reaches

its perfection while passing through many stages and the Indian money market itself has necessarily to travel through these epochs of transformation before it can finally evolve as a perfected and thoroughly organised institution.

"The first and incipient stage is the collection of the credit material. It has to be collected and aggregated into huge masses by the great banks and the Savings Banks, the Co-operative Credit Societies and the Joint Stock Companies (Insurance species) have to play the part of subordinate adjuncts and trustworthy lieutenants" in the process of accumulating money. Money should be tempted out of hoards and thrust into useful activities. The supply of capital should be adjusted to demand and money should be made mobile and fruitful. This is the duty of our banks and they should try to equalise supply to demand. They should avoid a plethora of money at one time or a modicum at another. The second stage of the financial organism is reached when "there is a conscious directing of functions and co-ordination of them. It becomes conscious of itself, aware of its own existence, tries to protect itself, to guide and control its own future. It is in this stage that mistakes, miscalculations, reverses and misjudgments may be committed and the financial organism may be put to a trial here but on the whole it endeavours to correct itself and advance on the right path. Then

only can the financial organism evolve as a perfected and thoroughly organised whole with proper correlation, interconnection and due juxtaposition of the several elements to each other."[1]

If this biological theory of evolution is to be relied on and if one can repose one's faith in its applicability to the economic institutions of our times, one can easily discern that the Indian Money Market is slowly passing through the first stage. There is the accumulation of credit material going on and it cannot be dogmatically asserted that it has been completed. More banks are to arise and to mobilise our money power. The various subordinate adjuncts have to perform their mission faithfully and efficiently. The advent of specialisation and the differentiation of functions among the components of the money market is already perceptible to the unaided observer but as yet no signs of calculated co-ordination are visible. The Indian Money Market is no doubt in an embryonic stage and it may take several years to perfect itself.

[1] Dr. Powell, "Evolution of the London Money Market."

CHAPTER II

The Presidency Banks

A Short History[1]

The present Bank of Bengal was opened in May, 1806, under the style of "Bank of Calcutta" with a capital of 50,00,000 Rupees in 500 shares of Rs. 10,000 each. It was granted a charter of incorporation in January, 1809, and the name was altered to the "Bank of Bengal." The East India Company contributed about ⅕th of the capital but as the Bank's capital began to increase the East India Company's proportion of capital began to decrease till in 1876, the year in which the Government sold its shares and relinquished the right of representation on the Board of Directors the Bank's capital stood at £ 2,200,000 of which £ 2,20,000 belonged to Government. The East India Company appointed

[1] The origin of the present bank was due to the Accountant General Henry St. George Tucker's advocacy in the year 1801. He pointed out the inadequacy of the system of floating loans by Treasury Bills. In order to counteract the influence of local bankers which led to the depreciation of these Treasury Bills, a Bank is to be formed where the Government should own a part of the capital. The outcome of this proposal was the present Bank of Bengal. He was the first President of the Board of Directors of the Bank of Bengal.

three directors and the Secretary and Treasurer of the Bank was always a Civilian till 1854. It was prohibited to do certain things by rules in the charter.

Mr. J. M. Keynes opines that "this Indian Banking institution has been moulded on and influenced by English conditions as it is illustrated by the fact that several provisions in the character of the Presidency Banks were copied from the Charter of 1695 of the Bank of England.[1] The Bank was prohibited by the charter not to lend more than one lakh of rupees to any individual and five lakhs of rupees to the Government. The Bank of England was prohibited likewise in 1695 to lend money to the Government without the previous consent of Parliament. The Bank's rate of interest was not to rise higher than 12% and the Bank of England was also prohibited, till the year 1839, from raising its rate above 5%. It was only after repealing the usury laws in 1839 that the Bank of England could discover the effective control exercised by its discount rate in the London money market. The charter also provided that (1) a cash reserve of at least $\frac{1}{3}$ of the outstanding liabilities payable on demand should be kept, (2) total liabilities of the Bank including deposits, note-issues, etc., were not to exceed the Bank's capital of 50 lakhs of rupees.

[1] Mr. J. M. Keynes, "Indian Currency and Finance," p. 201.

The charter was renewed in 1823[1] permitting the bank to issue notes up to 2 crores or four times its amount of capital and the proportion of cash to liabilities was reduced to $\frac{1}{4}$. It established branches in Rangoon, Mirzapore, Benares, Patna and Dacca in 1860 or about that time. In 1824 a fraud was practised and the dividend rate fell to $2\frac{1}{2}\%$. In 1829 extensive forgeries were conducted by one Razkissen Dutt, whose nefarious practices were equalled only by those of Premchand Roychand of Bombay in 1864 and 1868 which led the first Bank of Bombay to close its doors. From the years 1829-1832 the Agency houses of Calcutta failed and the Bank of Bengal itself had to experience troublous times. In the year 1834 "the value of the shares fell from 6,000 rupees to 500 rupees premium and even to par" due to dividend being written off for losses on account of forgeries. But the Bank survived these bad days and it gradually began to prosper from that time and thanks to the vigilance of the Government directors the Bank of Bengal did not contract any bad debts during the days of the Great Sepoy Mutiny of 1857.

The first weekly statement of the Bank of Bengal was published in January, 1856.

[1] In order to meet the growing requirements of trade it was proposed to double the capital but on the advice of the Accountant-General Mr. J. W. Sherer the Governor-General Lord Hastings permitted an increase in its note-issue to four times the capital.

Owing to the inauguration of Government paper currency due to the Honourable Mr. James Wilson the Bank of Bengal like its sister institutions, that of Bombay and Madras, lost its privilege of note-issue in the year 1862.[1] In order to compensate this loss it was agreed to that the Government should place the whole of its cash balances at the hands of the Banks and up till the starting of the Independent Treasury system in the year 1876, the Bank enjoyed the free use of the Government Balances. From that date onwards, the Government undertook to place a part of its cash balances in the several Banks and failing that it agreed to pay interest for the whole amount of the deficiency. As a matter of fact the balances have always been large and there was ample justification for the remark of the Exchange Banks that "the Presidency Banks which are state-subsidised institutions should not be allowed to compete with them in exchange business." The Manager of the Indian Specie Bank, the late Mr. Chunilal Saraiya, raised the question to the front and asked the Government to lend the use of its money on the strength of Government security to all the sound Banks that were doing good business. Mr. Vidyasagar Pandya of the Indian Bank, Madras, repeated the same point before

[1] A new charter was granted to the Bank of Bengal in 1862 which removed many of the early troublesome restrictions.

the Chamberlain Commission and suggested that this would be the best remedy for shortage of funds in the Indian Money Market during the busy season. No doubt the ordinary Banks would be forced to do safe business in order to obtain this help but as Sir James Westland has pointed out there is much truth in the contention that "the Government would be jeopardising its funds by entrusting them to several Banks of doubtful standing."

The Bank had to experience another troublous period from 1863 to 1866. Although some half dozen banks came to ruin, the Bank of Bengal, thanks to the management of Mr. G. Dickson, was piloted through the crisis safely

The year 1876 was also an eventful one in the history of the Bank of Bengal because the charter of the Bank was renewed and an elaborate and systematic Act applying to all the Presidency Banks was drafted and with some minor amendments in 1879 Act V, 1899 Act XX, 1907 Act I, the Act still governs the business of the Presidency Banks. Up till the year 1876 the Government of India had a stake in the interest of the Presidency Banks on account of its capital but the Government shares were sold and the Banks became purely private concerns.

From that year down to the present year they have had an era of prosperity but as

Mr. J. M. Keynes has pointed out "the Presidency Banks do not play as useful a part in the Indian Financial system, as with a different history behind them they might do" and this fact must be solely attributed to the restrictions under which they are forced to do their business even now.

The Bank of Bombay was started in the year 1840. Though first projected in 1837, it could not materialise due to the opposition of large capitalists. Its capital was divided into 5,225 shares of Rs. 1,000 each. The East India Company had 3 lakhs of its money here. It nominated three Directors on the Board. The charter of the Bank was closely modelled on that of the Bank of Bengal. There were extensive forgeries committed in the years 1848-1851 and the Bank of Bombay had to close its own doors in 1868. The bank paid its liabilities in full but a part of the capital amounting to 189 lakhs of rupees was lost.[1]

The chief cause for the failure of the Bank was due to the speculative mania of those days. Sir D. E. Wacha gives the following description of busy Bombay in 1864-1866. "All Bombay and its wife was too busy amassing handsome fortunes to be able to devote even an hour's leisure every three months to manage its domestic affairs. The merchant cotton princes of the day, European and Indian, were of course,

[1] 189 lakhs were lost out of the to capital of 210 lakhs.

intensely engaged in the pursuit of purchasing the raw fibre at any price and make their two and three hundred per cent. profit per candy by exporting it six thousand miles away where there was such a dearth of it, and where thousands of operatives famished or were thrown out of employ for want of the necessary cotton in their factories. Then the financiers of the day were engaged in floating companies with gigantic capital of all sorts and degrees. The South Sea Bubble of the previous century in England had its counterpart in 1864-65 in Bombay. Apart from colossal reclamation companies like the Back Bay, the Colaba, the Frere Land and the Mazagoun, there were daily uprising in her midst, thanks to the crores poured in by Lancashire, during the American War, (1861-5) banks and financial institutions and diverse other ephemeral concerns for promoting all manner of things. These used to come into existence with the real rapidity of the prophet's gourd. The staid merchant of wealth and credit stood cheek by jowl with the latest parvenu whom the frenzied Stock-exchange of the day used to set up as a rival to float or promote some mushroom concern. In the Bombay of 1864-5 every tenth man was either a promoter, embryo promoter or director. And as to the number of Bankers and Managers it was legion, each and all absorbed in pocketing the largest

premium on share allotments made by hundred every day. Aye, night was joint labourer with the day in the busy pastime of making gold out of nothing in particular. It is impossible to describe the paper alchemy of designing promoters of bubble Companies—men who merrily plucked the feather of the fat geese who flocked in their thousands on the 'Change to grow fatter, but only to find themselves at last shorn clean of their original plumage. Men and women young and old, Christian or non-Christian, Banker and merchant' the green grocer and the grass-cutter, the penniless and the lakupati—all were to be seen sailing in one direction. Their embarkation on this Argonautic expedition of the mid-nineteenth century might indeed require the pen of some picturesque historian with the genius of Macaulay to portray. But this will give a faint conception of the busy but speculative Bombay of the days of 1865."[1]

A commission was appointed by the Government of India to enquire into the causes of the above failure of the Bank. It was presided over by Sir Charles Jackson and the report which was published in 1869 attributed the failure to the following causes :—

(*a*) The Bank Charter Act of 1863 removed many of the restrictions contained in the Act of

[1] Sir D. E. Wacha "Rise and growth of Bombay Municipal Government," Chapter V, pp. 20-22.

1840 and permitted the Bank to transact business of an unsafe character.

(*b*) The abuse of the powers, given by the Act of 1863, by weak and unprincipled Secretaries.

(*c*) The negligence and incapacity of the Directors who omitted to pass bye-laws and who did not exercise proper supervision over the Secretaries.

(*d*) The very exceptional nature of the times. (The Speculative mania of the times.)

(*e*) The absence of sound legal advice and assistance and according to Sir C. Jackson the great lesson the failure taught was that "Banks should not lend money on Promisory Notes in single name or on Joint Promissory Notes when all the parties were borrowers and not any of them sureties for others."

The 'New Bank of Bombay' was started in 1870 but its name was changed into the 'Bank of Bombay' in 1876. The Bank Charter Act of 1876 was also made applicable to this Bank. The Bank of Bombay began to prosper from that date thanks mainly to its rigid restrictions.

The Bank of Madras which was started in 1843 and received its Charter of Incorporation in the same year, arose out of the original Government Bank which was doing a limited amount of business with a small amount of note issue. The model to be copied was again the Charter of the Bank of Bengal. The original capital

was 30 lakhs to which the East India Company contributed only 3 lakhs. The average note circulation of this Bank before 1861, was about 15 to 16 lakhs. The Bank Charter Act of 1876 was applied to this Bank and from that date it had a tale of prosperity and fortunately it had no chequered history as in the case of the other two Presidency Banks and it did good service in popularising banking business in that Preisdency.

The Common Features of the three Presidency Banks.

The two common features of all the three Presidency Banks are (1) their close connection with the Government and up till 1876 they were 'quasi-public institutions.' From the year 1876 they have become purely private bodies but the following are some of the noticeable points of contact between the Government and the Presidency Banks at the present day. The Banks must throw open their books and papers to Government inspection if it is so ordered. The Banks are made to publish "weekly" statements of their business which are published in the local Gazettes. The Government of India maintains a part of its cash balances in the hands of the Presidency Banks according to the agreement of 1876 and it entrusts its cash business in those places where the Bank has got branches to its safe custody. The Presidency Banks manage

the temporary public debt of the Government of India for which of course they receive some payment. The Government has no intention to keep all the Banks under its rigid supervision but it only secures to itself the right to interfere in case the Banks go astray. As J. M. Keynes has said the Government is responsible because it is the Government that has to come to their rescue in the last resort. "So long as they manage the Note-issue and maintain large cash balances outside the ordinary Banking system they are bound to come to the rescue of the Presidency Banks in the event of a widespread failure or crisis involving the Banks generally."[1]

Again it is the intention of the Government that all the other Banks should look upon them as model Institutions. The relations of the Government with the Presidency Banks have been friendly and a systematic policy of keeping a large part of its cash balances in the Banks was pursued which rendered unnecessary a high Bank rate during the period of the late Anglo-German War of 1914 to 1918.[2]

The second common feature of all the three Presidency Banks is that they are made to work under stringent regulations. Many of the writers on the topic of Indian Banking have

[1] Final Report, "Chamberlain Commission." Memorandum of J. M. Keynes on State Bank for India, p. 60.

[2] Sir William Meyer, 'Financial Statement', 1918-19.

attributed the levying of these restrictions to the jealousy of the East India Company which itself was doing a considerable amount of banking business specially the management of the Foreign Exchange. Some have attributed it to the good-will of the East India Company which never wanted these new institutions to be shipwrecked. As semi-official institutions they were to be conducted on safe and sound lines. These restrictions have saved them from departing from sound and conservative lines of management of banking business. These restrictions have gone a long way in stabilising these institutions, but they have hindered the progress of the banks and in spite of continuous and unceasing agitation on the part of the Presidency Banks they have not been completely removed.

The following are some of the restrictions.

(1) The Presidency Banks cannot grant loans for a longer period than six months (up till the year 1907, the time limit was three months). This is to prohibit the banks from locking up their money for a long time in one transaction.

(2) They shall not grant loans upon security of stocks or shares of banks of which they are Directors. This is to checkmate any undue influence on the part of the Directors to help firms in which they have a personal stake.

(3) They shall not lend on mortgage of immoveable property or upon goods until the titles to goods are deposited with them for security or upon personal security. This is to prevent the Banks from making indiscriminate loans to all persons who demand accommodation.

(4) The Banks shall not draw, discount or buy or sell bills of Exchange or other negotiable instruments unless they are payable in India or Ceylon. The object is to restrict the Presidency Banks from dealing with foreign exchange business which was considered then unsafe on account of its fluctuating nature.

(5) They shall not discount bills for any individuals, or partnership firm, for an amount exceeding the whole at any one time, such sum as may be prescribed, by the bye-laws for the time being in force, or lend or advance in any way to any individual, or partnership firm for an amount exceeding in the whole, at any one time, such sum as may be so prescribed. Evidently the object of the restriction seems to be the preventing of the bank from lending too much to one single firm or individual and thus identify itself with the interests of the said firm or individual. If such were to be the case the prosperity of the bank would depend on the fortunes of the said firm or individual. The

main object is to make the Banks wise in the matter of distributing their capital.

(6) They shall not lend nor discount or buy or advance or open cash credits on the security of any negotiable instrument of any individual or partnership firm payable in town or at the place where it is presented for discount which does not carry on it the several responsibilities of any two persons unconnected with each other or partnership firm. The idea of the government is that the Bank is to transact safe business in dealing with double-name paper only.

But the ingenuity of the bank officials combined with the public need for money has helped the banks to discover so many loop-holes to get out of the difficult position imposed on them by the Bank Charter Act. J. M. Keynes says that the last provision allows a loop-hole by means of which the rules can be made to work in practice less rigorously than they appear on paper. "Any two names will satisfy the letter of the Presidency Banks Act; but any two names are not necessarily very good security. After getting two names to satisfy the act, the authorities of the banks can then proceed to satisfy the dictates of cautious banking by taking as well some of other kinds of security upon which technically they are forbidden to lend. It is an excellent instance of the consequences of an attempt to

control banking by an elaborate act forty years old." The third provision has led "I believe to the banks establishing a kind of bonded warehouse for the reception of merchandise. In other cases, the borrower's own mill or warehouse is made to serve the purpose by the expedient of the banks paying wages of his watchman. Where the personal security of the borrower is obviously good there must be a temptation to allow him to value the goods generously rather than to put the bank to the inconvenience of housing or watching a greater bulk of merchandise."[1]

It is extremely unwise and futile to restrict a growing business by means of antiquated rules. No doubt they have contributed much towards the solidity of their banking business. Many writers have condemned the retention of these restrictions even to the present day. The stabilising of the exchange by the adoption of the Gold Exhange Standard System is a well-known thing and yet the Presidency Banks are not allowed to deal with this business. It has been said that it is ungenerous to encroach on the vested interests of the Exchange Banks which have done a good deal of service to our country. Again it has been said that the Exchange Banks keep their balances with the Presidency Banks and

[1] J. M. Keynes "Indian Currency and Finance," p. 202.

so the latter should not be allowed to compete with them with the help of their own money. It has been declared that if such a competition were allowed the Exchange Banks it is said would retaliate by combining with some big Banking combinations of the London Money Market and the truth is so long as the Presidency banks have their hands occupied with some other business there is not much injustice in disallowing them from dealing with foreign exchange business.

Another bone of contention between the Government of India and the Presidency Banks was the privilege of access to the London Money Market. Although this question was raised in the year 1877 and although the Government of India favoured the proposal of the Presidency Banks yet the Secretary of State disallowed the measure. His arguments for preventing the Banks from having access to London were supported by many eminent .men in India. The Honourable Mr. H. F. Howard remarked that "absence of such a thing was not a serious defect but it would be a useful thing." The Hon'ble Mr. (now Sir) T. Smith of Allahabad has thought it unnecessary and that "public opinion would be against it." Mr. Thackersay and Mr. Chunilal said "that the Presidency Banks are the residuary trustees and hence access should be given to them." Sir Bernard Hunter

advocated this proposal "but was against giving the banks the privilege to deal in foreign exchange." Those who do not wish that the Presidency Banks should be given access to the London Money Market say that

1. "If access were given to them it is not clear it would improve the net aggregate flow of capital into India." To allow the Presidency Banks to borrow would be to increase the number of channels through which capital may flow but the volume of the capital will not increase. But it may be remarked that the Exchange Banks do not bring enough capital to suit our needs hence their access to the London Money Market is desirable.

2. "It would involve the Presidency Banks to deal in foreign exchange (when remitting the borrowed money) which is a fluctuating thing" but with the advent of the Gold Exchange Standard System this argument has lost its force.

3. "The money brought in by the Exchange Banks (at least a part of it) is made to remain in India in the slack season and is invested in the Rupee Loans which the Government habitually floats in summer months and this improves the rate which the Government obtains for them. This will not be the case if the Presidency Banks are to obtain the funds." But the real grievance is that enough money is not brought over here.

4. "The average rate for Council Bills will be lowered and during the slack season when money has to be sent back it depresses the Exchange." It may be said that the sale of Council Bills is not to obtain profits but to meet the present and prospective requirements of the Secretary of State for India and they must be sold subject to the law of demand and supply.

5. It may be possible that the Bank may not be in a position to pay the loan for a call for it may come at an inopportune time. There is much truth in this contention.

6. "State-subsidised Banks should not be allowed to compete with unaided Exchange Banks in financing foreign trade." They have rendered meritorious service in the past and the Presidency Banks ought not to be given undue authority and advantage over these.

7. Lastly, the three Presidency Banks competitively pledging government securities is bad and this tends to lower the value of these government securities.

It is with such reasons that the Presidency Bank's proposal has been vetoed but the real necessity for access has not been fully discussed.

Evidently, the Presidency Banks wish to have access to the London Money Market so that they may borrow money there—and remit it to India during the busy season. On

account of the fact that the Government maintains its traditional aloofness from the money market and has a separate Independent Treasury system of its own, the evil of the shortage of trade capital is accentuated. The Independent Treasury System is a weakness in our banking system. It resembles a Central Bank of deposit with branches run by the Government in which the Government is the only depositor and from which there are no borrowers. Many rupees are swept away to the Government coffers just at the time when they would be most helpful in relieving the monetary stringency in the market. As a consequence the Banks put up their rates to a high figure in order to protect their reserves and the trading community suffers. Thus there is an acknowledged shortage of trade capital during the busy season.

The Presidency Banks propose that they should be given the privilege of borrowing funds in the London Money Market but they have been denied access. J. M. Keynes has shown that this would not be a true remedy because there would not be sufficient recompensation to the Presidency Banks if they bring over funds from London unless and until they are employed all throughout the year and that at a fairly high rate of interest. This will not be possible during the slack season. Hence he has suggested loans from the Cash balances or the Paper

Currency Reserve. The policy of granting loans to the Presidency Banks is not a new thing. As a matter of practice, loans were being given out of the Government cash balances and in 1889 the Government defined its loan-policy and said that "any assistance in relief of the Money Market which may be afforded by means of Treasury Reserve can be made (1) through the Presidency Banks, (2) at their published rate of discount, (3) in relief of temporary stringency." Up to 1892 loans were given on this policy From 1892 to 1899 loans were given rarely. From 1899 to 1906 loans were given on five occasions and since 1906 there have been no loans. The Banks did not care to have the money in this way because the loans were made at the prevailing Bank rate and there was no profit for them if they were to re-lend it at the same rate. Had there been any margin between the Government rate and the Bank rate the Banks would willingly have closed with the offer. Recognising this, the Chamberlain Commission advocated the giving out of loans to the Presidency Banks at 1% below the prevailing Bank rate.

Another remedy that has been proposed to rectify the defect, *i.e.* the shortage of trade capital during the busy season, *i.e.* (during the months October to March) was to issue notes not covered by metallic currency. The above

two remedies act as mere lubricants but the best remedy is to place the Treasury Balances at a Central Bank and give up the Independent Treasury System. It is an archaic, unwise and inefficient method of dealing with the finances of a nation and the only way to remedy the situation is to abolish it altogether. Some means should be discovered to make the note-issue more elastic than at present. But the question of the Central Bank itself has not been solved and as such this is not a promising remedy for the present. The only possible go under the present circumstances is that India should raise additional working capital for its Banks. The Imperial Bank that is going to be created shortly out of the amalgamation of the three Presidency Banks has taken up successfully into its hands all the four possible remedies. (1) Access to the London Money Market. (2) The abolition of the Independent Treasury System by closing the three Reserve Treasuries. (3) The expansion of note-issue according to Sir H. Babington Smith's Committee's recommendations. (4) More capital is to be raised by the Imperial Bank.

The business of the Presidency Banks.

An examination of a Presidency Bank's balance sheet [1] will disclose the nature of its business.

Liabilities.	Rs.	A.	P.	*Assets.*	Rs.	A.	P.
Capital paid up	2,00,00,000	0	0	Government securities.	8,57,68,643	0	0
Reserve Fund	1,58,50,000	3	0	Other authorised Investments.	1,42,18,714	0	0
Special Reserve for depreciation of Investments.	67,50,000	0	0	Loans on Government and other authorised securities.	7,97,81,079	10	0
Public deposits at Head Office.	3,51,08,078	13	5	Accounts of credit on Government and other authorised securities.	4,13,57,538	11	4
Other deposits at Head Office and branches.	27,43,67,391	15	1	Bills discounted and purchased.	2,55,41,787	2	0
				Balance with other Banks.	56,41,979	12	2
Bank Post Bills	12,20,890	11	10	Bullion ...	......		
Sundries	29,81,760	0	8	Dead Stock	27,99,535	4	0
				Stamps	13,446	9	2
				Sundries	23,82,284	12	8
				Cash & Currency notes— At Head Office	8,93,26,744	13	7
				At Branches	4,05,35,679	15	7
	38,75,77,432	13	10		38,75,77,432	13	10

Explanation of the Balance Sheet.—'Capital' is the money subscribed by the shareholders.

[1] A Balance sheet of the Bank of Bengal published in June, 1918.

It acts as a guarantee to the depositors and is the fund with which business is started. 'Reserve Fund' is the amount accumulated during the course of Banking business conducted by the Bank. 'The Special Reserve for the depreciation of Investments' is for writing down the Bank's holding of 3½% Government paper which has fallen in value in the market to about Rs. 60. It amounts to earmarking a part of the Reserve for this special function and as soon as the writing down of Government securities to the present market value is finished the Reserve is accumulated because it is not only a source of aid to the working capital but it also inspires confidence to the depositors.

The 'public deposits' are the Government deposits. The Government places a part of its cash balances in the Presidency Banks and their branches wherever they exist. The balance sheet relates to the conditions in the month of June but if a published balance sheet relating to conditions in the month of February or March is examined it will be seen that these figures will be very high. The Government begins to collect its dues from January to March and during this season it has plenty of funds at its command.

The 'other deposits' include those of the Exchange Banks and the Indian Joint Stock Banks besides that of traders and the private people. These indicate the prosperity and the

strength of our Banking System.[1] The habit of some of the Joint Stock Banks in the London Money Market is not to pay 'current accounts' of commercial men but only the 'deposit accounts.' The 'current accounts' represent the balances of the customers who have power to draw against them. The 'deposit accounts' are subject to notice and may be paid to a Bank by people other than customers. The 'current accounts' represent immediate liability whereas the 'deposit accounts' represent no such thing. It is the habit with most of the Banks to unite both sorts of accounts in one item the 'deposit accounts.' The Union of London and Smiths Bank is an exception to this rule and publishes the current and deposit accounts separately. Here the Bank of Bengal lumps up both the items, it does not pay the 'current accounts.' It however attracts deposits at sums not below Rs. 500 by paying interest. They do not pay the Government for its 'deposits.'

[1] TABLE.

		Total Private Deposits (Lakhs of Rupees.)
1870	Dec. 31st	640
1880	..	849
1890	...	1,476
1900	...	1,288
1910	...	3,234
1914	...	4,004
1915	...	3,861
1916	..	4,471
1917	...	6,772
1918	...	5,098
1919	...	6,821

Bank Post Bills.—This is a species of Money order much resorted to in the past when communications were difficult and roads dangerous to send money from place to place, *i.e.*, from one branch to another.

The Bank rate indicates that the Bank is prepared to lend money on Government Securities at that rate. The discount rate may be slightly higher than this by 1%. The discount rate is usually higher in winter and early spring ranging from six to nine per cent. and low in summer say 3%. On the whole the average Bank rate is not high but it rises to a high maximum during the busy season. The discount rate may be higher than this or lower than this for it represents more or less the rates for loans for short periods say 15 days. During the busy season when the demand for money is great their rate will indicate the fact that they are doing considerable volume of business. During the slack season although the Bank rate is nominally 3% they are too willing to lend money at 2%. And this is due to the fact that there is very little bartering in money and this argument has been cited to prove that there need be no effective machine for raising credit money. But those who realise that 'credit is the vital air of modern commerce'; that credit is the solid grounding on which a sound industrial structure can be raised and that easy and

effective credit is no less indispensable for agriculture, can easily recognise the hollowness of the above argument.

Again, there is not one single rate for money as in England but many rates according to the period of the loan and character of security offered.

Again, the three Presidency Bank rates are not the same. They differ usually by one per cent., the Bank of Madras rate being the highest. This is due to differences in date at which the various crops are harvested in the different Presidencies. A wider difference will permit the internal movement of money but this is rendered unnecessary because the Secretary of State can sell Council Bills on any of the three centres, Calcutta, Bombay and Madras, according to the option of the buyer.

But the most noticeable feature of the Bank rate in India is that the Presidency Banks do not effectively control the money market just as the Bank of England controls the money market in London at certain times and so there is no dictating of the rate to the other Banks in India. The Presidency Banks follow the market and supply an 'index' of the general position and as Mr. J. M Keynes has said they afford the "best available index" to variations in the value of money in India. *The philosophy of the* Bank rate as expounded by Walter Bagehot in

his Lombard Street should be thoroughly understood by these leading Banks.

The enormous consequences that flow out of the raising of the Bank rate in England should be realised. The potency of this action in preserving the Central gold stock of the nation and the vigour and efficacy with which it can control an unfavourable turn of Exchange should be grasped. That the Bank rate is the lever by means of which gold is pulled in from foreign centres should be understood. That the raising of the Bank rate forces up all the other rates in the London money market, that it stops Capital from getting turned into fixed Capital at a dangerously rapid rate, that it affects the rates at the other commercial centres and that it leads to increased savings due to the increased value of money should be borne in mind by the leading Bankers. Though the Presidency Banks are in reality the leading Bankers yet they disclaim all pretensions of being the responsible Banks and the result is that no such all-important consequences attend the raising of the Bank rate in India.

The present amalgamation of the Presidency Banks into an Imperial Bank with greater Capital than before, with access to the London Money market and with access to public money buried in the Government Reserve Treasuries, *will bring manifold advantages and these will be discussed

in the chapter on the Imperial Bank. But the chief result that is to be mentioned in this connection is that the establishment of the Imperial Bank of India will lead to a lowering, equalising and levelling up of the extremely high rates that prevail for Banking accommodation in India during the busy season. It may also be possible that the operations of the Imperial Bank of India, by diminishing for other Banks, the risks arising out of the general causes to which the business is subject, may foster the investment of Capital in Banking business. A far greater expectation that is anticipated from the proposed Imperial Bank of India is the fostering and promoting of the Industrial development of India that has commenced already and is going on in rapid strides.

The "Dead Stock" refers to buildings and furniture owned by the Bank.

The 'authorised investments' are: (1) The Securities of the Government of India. (2) The securities of the United Kingdom. (3) Stocks, Debentures or shares of Railways which are guaranteed by the Government. (4) The Debentures and securities of any Municipal body or District Board or Port Trust in India or of the Improvement Trusts of Bombay and Calcutta.

"Cash and Currency notes" are held at both the Head Office and the branches. The

proportion between this figure and the total outstanding liabilities of the Bank to the public is always kept at a high figure say 40% to 50% and never at such low proportion as 11% to 20% as the Indian Joint Stock Banks were in the habit of keeping before the Banking Crisis of 1913 to 1915.

Thus the Banking business that they transact is of the following nature:

1. The holding of certain authorised securities.

2. The granting of loans and Cash credits for Rs. 400 and upwards on these authorised securities for short periods, *i.e.*, 6 months and these can be repaid at any time within that term at the convenience of the borrower.

3. The attracting of deposits for fixed periods on the payment of a certain rate of interest.

4. The discounting of trade bills payable in India or Ceylon and demand drafts are granted on the principal towns in India, Burma and Ceylon.

5. The buying and selling of gold and silver bullion.

6. Government and other securities and shares are received for safe custody, purchases and sales effected and interest and dividends collected and credited to account or remitted according to instructions of customers.

7. Circular Letters of Credit are issued to constituents free of charge.

8. Floating or Current accounts are opened with deposits of Rs. 500 or upwards (a minimum balance of Rs. 500 is always insisted). Overdrafts are granted in current account subject to previous arrangement.

9. Deposits of money are received for repayment on demand in one sum.

10. The Savings Bank department receives deposits and interest is allowed for the same. The smallest sum that can be deposited is Rs. 5. This is not to be used for the purpose of keeping a current account.

11. Advances are made against bullion, country produce, piecegoods, salt, metals and general merchandise and moveable property and the documents of title relating to such property.

12. The issuing of Cash Notes and Bank Post Bills.

13. The management of the debt of certain Municipalities and Port trusts.

The Presidency Banks finance internal trade to a great extent and some of the big Industrial ventures are also financed by them. They help the internal trade of the country by discounting the hundis. They advance on hundi business and finance the shroffs who in their turn advance money to the outlying places. The Presidency Bank of Madras finances the Nattukkottai

Chettis who finance the Burma rice crop to a very large extent. They finance established industries by giving them assistance in two ways: (1) by "clean" loans which are granted on pro-notes signed by two persons and on a personal guarantee of some of the shareholders of the concern. This is how cotton, spinning and jute mills are financed, (2) by "produce" loans which are granted on country produce stored in godowns under the bank's lock and key. Sometimes the Presidency Banks discount "Hand" bills for approved customers and these partake of the nature of pure finance bills.

The Presidency Banks never finance growing crops except by means of granting "clean" loans on the personal guarantee of two persons.

It has been advocated by many clear-headed thinkers that the Presidency Banks should reorganise their business on new and improved lines and give the motive force to the whole of the Banking System in general. They have been wise in extending their branches and more branches are required to tap the savings of the people. Sir Bernard Hunter of the Bank of Madras was always insisting on this point and as a matter of fact the Bank of Madras had larger number of branches than the other Presidency Banks.

The Presidency Banks' Branches.

		1916.	1918.	1919.
Bank of Bengal	...	22	25	26
Bank of Bombay	...	16	17	18
Bank of Madras	...	24	25	26

The cost of maintaining a separate branch in the beginning, say 1 or 1½ years, may mean loss but it is a distinct gain in the long run. It will be insignificant when compared with the handsome profit the Bank will obtain by handling the Government deposits alone. The recent discussion on the question of State Bank resolution by Hon'ble Mr. B. N. Sarma has revealed the fact that the amalgamation of the Presidency Banks would take place shortly and that 100 more branches would be started within a period of 5 years. There should be a net-work of these branches all over India and until then Banking facilities cannot extend to the small industrialist or small trader nor can there be a proper mobilisation of Capital which is lying unorganised in the moffusil.

Many of the witnesses before the Chamberlain Commission have advocated that there should be a redistribution of territory between the three Presidency banks. The Bank of Bengal does business not only in Bengal, Bihar and Orissa but in the far off Punjab also including the

United Provinces of Agra and Oudh.[1] The extension of the territory of the Bank of Bombay and Madras will enlarge the volume of their business. The proposed amalgamation of the three Presidency Banks will remove this defect.

It has been said that there should be an Industrial Branch added to the Presidency Banks. It has been said that they should be allowed to underwrite Industrial Capital, invest and lend on the security of shares in Industrial concerns. To take up the financing of Industries with the help of funds raised for a short time and locking up this short-dated deposit fund in long term loans is a bad mistake and when this has been attempted in the Punjab it proved a miserable failure. If at all they should take up the financing of industries they should do it with funds attracted for a long time. Of course advisory Directors with special knowledge of particular Industries should be appointed before Industrial financing is taken up as a systematic policy. The proposed Imperial Bank can take up the rediscounting of Industrial paper safely and its help to Industries can be rendered through the medium of Industrial Banks.

[1] It has an Agency even in Bombay to safeguard its interests. This Agency was started in 1866 after the failure of the first Bank of Bombay.

The witnesses before the Indian Industrial Commission voiced the fact that there should be more Indians on the Board of Directors. The Bank of Bombay has three Indian Directors.[1] The main advantage of this step is that co-operation would be established between the European Banks and the Indian Joint Stock Banks. The official Committee of Lahore which was appointed by the Punjab Provincial Industries Committee to examine and report on the causes of the recent failures in financial and industrial concerns in the Punjab says that "there was no co-operation between the Indian Banks themselves or between them and the English Banks or between them and the old-fashioned Indian Banks" and instances the Bank of Bengal's action during the Banking Crisis of 1913-15. Secondly, the Indian trader is not in a position to satisfy a Bank; at any rate, he finds it difficult to satisfy a bank whose directorate and superior staff are entirely European, as to his financial position. So the inclusion of Indian Directors on the Boards of the Presidency Banks would promote the extension of their business and the provision of facilities for Indian Industrialists.

There should be a relaxation of restrictions. No doubt the Government has retained them with a view that the other banks should look

[1] One Indian Director has recently been added to the Board of Directors of the Bank of Madras as well as that of the Bank of Bengal.

upon the Presidency Banks as *Model* Banks and follow the same routine. But if their utility is to be increased and if they are to play a greater role in the future history of our country they should be allowed to do that sort of business which is conducive to the interests of the share-holders and the public as well.

They should be given the power to lend on all forms of marketable security if they are satisfied as to the personal security of the borrower and his business ability. Again the limit of overdraft should not be fixed at Rs. 10,000. It should be left to the discretion of the Secretary. Overdrafts should be allowed only for a short time to a limited amount to persons of very good credit. In the case of the Imperial Bank it has been proposed to raise the limit of overdraft.

The Presidency Banks should take up the duty of training apprentices. The Tata Industrial Bank has taken a wide view of the situation and in as much as the Presidency Banks receive help from the Government they should be insisted upon to train a few of the people. Most of the people of the interior are not aware of the advantages of a Banking account and these apprentices no doubt will dispel part of their ignorance. To work the various branches of the proposed Imperial Bank this provision of training people in banking business will have to be taken into its own hands.

There should be a systematic undertaking on the part of the Presidency Banks to rediscount the trade bills of the Indian Joint Stock Banks in case of necessity. This point will be dealt with a later chapter.

Tabular statement of the Capital, Reserves, etc., of the three Presidency Banks prior to their amalgamation (Lakhs of Rs.)

	Capital.	Reserves	Public, i.e., Govt.	Private deposits.	Total.	Cash
Bank of Bengal ...	200	210	388	3,439	3,827	1,244
Bank of Bombay ..	100	125	187	2,650	2,837	980
Bank of Madras ..	75	45	124	1,529	1,653	450
TOTAL	375	380	699	7,618	8,317	2,679

CHAPTER III

THE EXCHANGE BANKS

The Official definition of an "Exchange Bank points out that the Head Office of the Bank should be outside India." The fact that the Presidency Banks have not been allowed to deal in Foreign Exchange business gave scope for these Banks to specialise in Foreign Exchange. It must be understood at the outset that no rigid partition of business exists between the three kinds of Banks doing business in India, *viz.*, the Presidency Banks, the Exchange Banks and the Joint-Stock Banks. The Exchange Banks besides dealing in Foreign Exchange conduct ordinary Banking business. Just like the other Banks they hold money at call, investment and grant loans but during the busy season, *i.e.*, December to March, they invest a considerable portion of their funds in discounting foreign trade bills. It is this special feature that differentiates the Exchange Banks from the other banking institutions of our country.

It is the usual practice to divide the Exchange Banks into two groups.[1] Group I

[1] A three-fold division of the Exchange Bank is far better: (1) those banks that conduct their bulk of business in India; (2) those

Banks whose business in India is small and forms say $\frac{1}{10}$ of the total volume of their business. The Exchange Banks that belong to this category are the following:—

Exchange Banks.	Head Office.
1. The Comptoir National D'Escompt de Paris...	France (Paris).
2. The Russo-Asiatic Bank ...	Russia.
3. The Yokohama Specie Bank ...	Japan.
4. The Somotino Bank ...	Japan.
5. The Bank of Taiwan ...	Japan.
6. The International Banking Corporation ...	America.
7. The Deutsche Asiatische Bank ...	Germany.
8. The Nederlandsch Indische Handels Bank ...	Holland. A Branch of this bank was started very recently in India.

[Both the Russian and the German Banks have closed their doors since the outbreak of the late war.]

banks that conduct their bulk of business in the British Empire; (3) those that conduct their bulk of business in foreign centres.

Group II. The Exchange Banks that belong to this category are the following. Though their Head Office is situated in London or outside India they have their volume of business conducted mainly in India.

Exchange Bank	Year of Establishment.
1. The Delhi and London Bank[1]	1884
2. The Chartered Bank of India,[2] Australia and China ...	1853
3. The Hongkong and Shanghai Banking Corporation ...	1864
4. The Mercantile Bank of India ...	1893
5. The National Bank of India[3]	1863
6. The Eastern Bank ...	1910

Messrs. Cox & Co., King Hamilton & Co., Grindlay & Co., do much remittance business from this country to England. The Tata Industrial Bank and the Alliance Bank of Simla also deal with foreign Exchange business. One or two Indian Banks have recently been started in Bombay to deal with exchange business. The newly started Imperial Bank itself does exchange business for its customers. *i.e.*, buying foreign

[1] This Bank has been amalgamated with the Alliance Bank of Simla.

[2] This Bank does no business in Australia.

[3] It does a large volume of business in South Africa and British East Africa.

bills, but it does not seriously compete with the Exchange Banks.

Table I. 1000£.

	Paid-up Capital.	Reserve and Rest.	Deposits outside India.	Deposits in India.	Cash out of India.	Balances in India
Group I	14,572	10,009	1,76,086	101,873	38,671	163,248
Group II	3,812	4,289	51,915	431,880	16,094	174,189
TOTAL	18,384	14,298	2,28,001	553,753	54,765	337,437

Explanation.—The working Capital of the Exchange Banks consists of (*a*) their paid-up capital and the Reserve Fund, (*b*) Deposits for "fixed periods" and "current account" deposits. They pay deposits for "fixed periods at" the rate of 4% (a slightly higher rate than that of the London Joint Stock Banks) and pay 2% on current accounts provided they are not allowed to fall below a stipulated minimum. Formerly they used to take pride in the fact that they obtained capital for India from London but now they have discovered that money can be tapped in India as well. Mr. J. M. Keynes wrote that these Exchange Banks never kept quite an appreciable amount in India but their position has been much strengthened ever since that time.

[1] Banking Blue Book.

The Exchange Banks are more or less Janus-headed. They have to perform business in London and in India and they have to so perform their duty that they do not suffer from want of capital in any place and this is no easy matter. Again their position would be very difficult if a concurrent crisis both in the London Money Market and in India were to develop. Normally they depend on importing funds from London to India for doing their business and they send it back after the period of employment to London. If they are put to the trouble of meeting a run on them by their London depositors they send money from India to London and thus tide over the emergency. But in the event of a concurrent crisis in London and in India as well, they will be reduced to very serious straits. There has been a wide-spread grievance that the Presidency Banks help these banks while they refuse to proffer any aid even to the strong Indian Joint-Stock Banks.

The nature of their business.—The Exchange Banks besides dealing in foreign Exchange, *i.e.*, buying Export and Import bills, conduct ordinary banking business, *i.e.*, attract deposits, grant loans and overdrafts. To a certain extent they compete with the Presidency Banks and the Indian Joint Stock Banks in giving loans and overdrafts.[1]

[1] Evidence of Mr. Toomey and Mr. Fraser the representatives of the Exchange Banks before the Chamberlain Commission.

They finance internal trade in certain places like Amritsar, Srinagar and Mandalay. The piece-goods trade in Delhi and Amritsar and the leather trade of Cawnpore are financed to a great extent by them. They compete with the Presidency Bank of Bengal in the matter of financing jute operations. In the Madras Presidency however they confine themselves to export and import business solely and practically do very little or hardly any local business for Indians. They have 46 branches in the interior of the country and there is no statutory restriction compelling them to keep a high proportion of cash reserves as against their liabilities. They are in the habit of depositing a part of their funds in the Presidency Banks.

Coming to their Exchange business, the Export Bills are classified as D/A (documents on acceptance) and D/P (documents on payment). They are bought *in* India by the branches of the Exchange Banks. These bills are negotiated *in* India and drawn *on* London and as they are drawn on well-known houses in London they can be discounted easily. The Head Office of the Bank in London holds the D/P bills till maturity and cashes them. The D/A bills are rediscounted immediately after acceptance at the London Joint-Stock Banks or Bill-Brokers or the Bank of England according to the ease

or tightness of the Money Market in London. These bills are usually drawn for three months. They are either "Clean" or "Documentary." Whether the D/A bills will be immediately re-discounted or not depends on three factors. (*a*) The nature of the drawer of the bill. (*b*) The Bank of England's rate of discount. (*c*) Their own need for cash. If they do not stand in urgent need for funds in India they do not rediscount the D/A bills. The money to finance the export trade (thus by means of rediscounting export bills) is British capital and not Indian money. This is considered a danger to our export trade. As the Indian deposits of these Exchange Banks increase, this danger is lessened. Again the branch of the Imperial Bank in London would absorb much of this rediscount business in future and as such it will be Indian money that will finance our trade.

The import bills are negotiated *in* London and drawn *on* India. Again it is the London Office that finances the import trade through their London Office, and its funds there. "The bills are drawn D/Pox, D/A bills in sterling and paid with interest from the dates of the bills to the approximate arrival in London by demand drafts on London. These bills are never rediscounted."[1] India is a creditor country and her export trade is far larger than her import trade

[1] Banking Blue Book (Business of the Exchange Banks).

and the balance of trade in her favour has to be paid to her and the Exchange Banks liquidate the balance by buying Council Bills and Telegraphic transfers. They send gold bullion and coin and silver bullion. Besides this there is the transfer of Government Rupee Paper from London to India. They buy the sale of drafts required for Indian travellers and students in England. Thus the purchase of export bills is done with the aid of (1) Import Bills, (2) Council Bills and Telegraphic Transfers, (3) Gold and Silvér bullion, (4) Transfer of Rupee Paper, (5) Sale of Drafts and transfers of money for students and travellers in England. They will be put to difficulties when money is wanted keenly both in the London Money Market and the Indian Money Market. Normally they depend on the fact that money can be transferred from London to India for short periods and then sent back. But if money is not forthcoming to rediscount their D/A export bills, the Exchange Banks have to depend on their own resources. They have to buy export bills and have to transfer for that purpose funds from London to India and this they do by the mechanism of the Council Bills. Hence a high discount rate in England will slacken the demand for Council bills. Or again when Indian produce is withheld by speculators to realise higher prices, the demand for Council Bills falls to a low figure.

The Exchange Banks are doing quite a lucrative business and a safe one, thanks to the Gold Exchange Standard system. They are prospering well and judged by the dividends they pay and the high value of their shares in the Stock Exchange Market they are enjoying good prosperity. These Banks do not carry on business of a speculative nature. They have passed through a keen struggle for existence. They have now obtained great reputation consequent to their long establishment in this country and they are very jealous of any intruders who may try to encroach on their business. It has been said that it is practically impossible to start a new Exchange Bank in teeth of the opposition of the old ones. The nature of the business is such that the customers rather flock to the old Exchange Banks rather than patronise the new ones. They fought with all their might against the proposal that the Presidency Banks should be allowed to do business and have access to the London Money Market. They were against the closing of the mints in 1892. They were against the formation of a Central Bank for India and viewed with jealousy the proposals for the establishment of a State Bank. They never wanted that the Presidency Banks should compete with them in the matter of foreign exchange business.

In spite of these obvious shortcomings on their part, they have done yeoman service to our

country and have done much to popularise the banking business in our country. The representatives of the Exchange Banks (Mr. Toomey and Mr. Fraser) before the Chamberlain Commission have confessed that they have not succeeded and can never succeed in attracting huge deposits in India and thus incidentally break up the hoarding habit in India. So long as they are worked by the foreigners (both in the Directorate and Staff) they cannot exercise sympathetic relations with the Indian trader. There is vast and unlimited scope for Indian Joint-Stock Banks to take up this field and these foreign Banks can never wholly succeed in driving away the Indian Banks from this line of business.

The Exchange Banks have started an Association in order to protect their common interests and they have seldom failed in the past to exert their united strength to protect their interests.

The effect of the War on the Exchange Banks.

Normally, Capital flows every year from London to India. But since the outbreak of War there was a considerable movement in the opposite direction. Early in the year 1914-15 there was slackness of trade due to submarine risks. Hence smaller amount of funds was needed to finance trade. Large profits were made by the Jute Mills and the Exchange Banks naturally were left with unemployed funds in

India and these they transferred to London for investment there. There were also a large number of private remittances on behalf of people who sold their jute shares and who wanted to invest in the War Loan and other securities issued by the British Government. Insurance Companies remitted their profits due to their demanding additional premia on account of war risks. There was reduction of stocks of piece-goods and many of the Jute mills financed their own operations. Hence there was no demand for money on the Exchange Banks. The Railway Companies also remitted their profits. Hence there was a flow of money from India to London. The operation of all these factors made it possible for the export transactions to be far higher than those covered by imports.

Ever since the price of silver began to rise, the private remittances sent home have been detained in India in expectation of realizing higher rates. Again there were fuller facilities for the funds being employed in India in the shape of Treasury Bills issued by the Government of India. The Insurance Companies retained their own profits. There were opportunities to invest in the Indian War Loan. These were some of the features of the trade balances during the years 1916 to 1918. But the excess of Exports over Imports was now financed by Government remittances. The Exchange Banks

loyally co-operated with the Secretary of State when he tried to make the war purchases on behalf of the British Government in India. In this connection the recent Currency Committee has approved the measures taken by the Secretary of State to control Exchange. "After Exchange had recovered from the temporary dislocation consequent upon the outbreak of war the demand for Council drafts continued on a normal scale until October, 1916. During November the amount of the weekly sales increased rapidly and in the first fortnight of December they exceeded 5,000,000. The rupee holding in the Paper Currency Reserve had then fallen to 14 crores and though there was Silver awaiting coinage and the Secretary of State had made large purchases, it was evident that the continuance of sales on this scale would endanger the convertibility of their note-issue. To avoid this danger the Council drafts sold by the Secretary of State were limited from 20th December 1916, the weekly amount, which varied between 120 lakhs and 30 lakhs, being fixed from time to time mainly on a consideration of the rupee resources of the Government of India. The limitation of the amount of Council drafts at a time when the demand for remittance to India was exceptionally strong and no adequate alternative method of remittance was available led to divergence between the market

rate of Exchange and the rate at which the drafts were sold. It also became evident that the remittance available might be insufficient to finance the whole of Indian Export trade, and it was essential that the exports required for war purposes should not be impeded. It was found necessary therefore to introduce certain measures of control. From 3rd January, 1917, Council drafts were sold at a fixed rate which at the outset was 1*s.* 4¼*d.* for immediate T.T. and the same was confined to Banks and firms on the approved lists which included the chief Exchange Banks and a few large purchasers of drafts. A little later these Banks and firms were required to do their business with third parties at prescribed rates and to apply their resources primarily to financing the export of articles of importance to the Allies for the purposes of carrying on the war, a list of which was drawn up by the Secretary of State. An appeal was at the same time addressed to other firms engaged in Indian trade to conduct their remittance transactions through the Exchange Banks. Further, in order to encourage the Exchange Banks to buy Export Bills in excess of their purchases of Exchange in the other direction, the Secretary of State insured them against the risk of a rise in Exchange, by undertaking to sell to them, within a year after the war, Exchange up to the amount of their

overbuying at the rate at which their excess purchases had been made. It adds that "It was due to the hearty co-operation of the Exchange Banks and trading firms with the Government that the Market rate of Exchange was maintained near the rate at which council drafts were sold and the necessary finance was successfully provided for the large volume of exports of national importance."

When the price of silver began to rise, the sale of Council drafts could not be made at the old rate without loss to the Government. Any undervaluing of the rupee might tend to make it disappear and so the Exchange value of the rupee was made to follow the price of silver. From 28th August, 1917, the rates were changed as follows :

Date of introduction.		Minimum rate for Immediate T.T.
3rd January, 1917	...	1*s*. $4\frac{3}{4}$*d*.
28th August, 1917	...	1*s*. 5*d*.
12th April, 1918	...	1*s*. 6*d*.
13th May, 1919	...	1*s*. 8*d*.
12th August, 1919	...	1*s*. 10*d*.
15th September, 1919	...	2*s*. 0*d*.
2nd November, 1919	...	2*s*. 2*d*.
12th December, 1919	...	2*s*. 4*d*.
2nd February, 1920 (2*s*. Gold).		2*s*. $8\frac{1}{2}$*d*. (sterling).

Such a fluctuating Exchange made the Exchange Banks rather reluctant to purchase bills unless the seller of the bill was able to provide or earmark sufficient remittances. The Exchange Banks refused to operate except in "doubles." The Exchange Banks were unwilling to make forward purchases or sales of bills. They were unwilling to buy export bills till full cover was provided for them. They sold remittance only against bills. Such measures created a lot of inconvenience to export trade and the Tea and Coffee Companies found it difficult to finance themselves as usual. Unless and until the sterling value of the rupee is stabilised the Exchange Banks will never be in smooth waters again.[1]

A fixed and stable exchange is a gain not only to these Exchange Banks but also to all traders and those who have to make remittances either way from London to India or from India to London. It is then only that they can buy or sell in excess and will not be afraid of loss on account of an overbought or oversold situation.

[1] The author has traced the history of the Indian Exchange during 1920 in his article entitled "Indian Exchange in 1920 and its lessons" published in the Calcutta Review, February, 1922.

CHAPTER IV

THE INDIAN JOINT-STOCK BANKS

The principles of Joint-Stock Banking were first introduced into this country by the Agency Houses some of which did banking business along with trading business in the early beginning of the 19th Century say 1810-1835. Mr. Thomas Bracken, a partner in the house of Alexander and Co., while giving evidence before the Select Committee of the House of Commons on the affairs of the East India Company in 1832[1] relates the history of the Agency Houses thus. "The Agency Houses were chiefly formed of Gentlemen who had been in the Civil and Military services, who finding their habits better adapted for commercial pursuits, obtained permission to resign their situations and engage in Agency and mercantile business. They received the accumulations of their friends in the Company's service. They lent them to others or employed them themselves for purposes of commerce, they were in fact the distributors of Capital rather than the possessors of it. They made their profit in the usual course of trade and by

[1] Select Committee of the House of Commons, 1883, Volume III.

difference of interest in lending and in borrowing money and by commission. In course of time, carrying on successful commerce many became possessors of large Capital and returned to this country (England) having most part of it there. The Agency Houses became the usual depository of a great portion of the savings and accumulations of the Military and Civil Services in India."

Not all the Agency Houses carried on banking business but only a few and the Bank of Hindusthan formed by Alexander and Co. alone had the right to issue Bank Notes. But a great many of them performed the three functions of (1) receiving deposits, (2) paying drafts, (3) discounting bills. Messrs. Alexander and Co. referred to above started the Bank of Hindusthan [1] in 1770. Its notes though not recognised by the Government had a local circulation amounting to 50 lakhs. For many years they were received at all the public offices in Calcutta, scarcely excepting the Treasury itself. This Bank failed in 1832.

But the real impetus to the starting of Banks was given in the year 1813, when an Act was passed removing the restrictions on Europeans settling in India. Several Banks were established. But during the troublous period of 1829-33 many of the Agency Houses failed. (Alexander

[1] Cooke's Banking in India.

and Co., Colvin and Co., Fergusson and Co., Mackintosh and Co.,[1] Palmer and Co., and Cruttenden and Co). Many of the Banks of this time contracted the bad practice of lending too much to the Indigo Houses and the failure of these Indigo Houses in 1840 involved many of the Banks. (Messrs. Fergusson Brothers, Gilmore and Co., Cockerell and Co).[2] The failure of the Union Bank[3] in 1848 and the Benares Bank in 1849 opened the eyes of the public as to the unsound manner in which the Banks were then conducting business. In spite of these failures new Banks arose and did much useful business. (The Simla Bank, 1844, the Dacca Bank, 1846, the Agra Bank, 1833-1900.) The Dacca Bank was amalgamated with the Bank of Bengal in 1862.

The history of the Indian Joint Stock Banks for which Indians have been responsible begins from the year 1881 when the Oudh Commercial Bank was founded. Some other Banks were established also at this time. The Punjab National Bank was established in 1894. The People's Bank of India was founded in 1901 and it closed its doors in 1913. The Amritsar Bank was started in 1904

[1] Alexander and Co. failed for 34 lakhs, Colvin and Co. for 12¼ lakhs, Mackintosh and Co. failed for 25 lakhs, Palmer and Co. for 26 lakhs, Cruttenden and Co. for 13½ lakhs.

[2] These were some of the Indigo Houses that failed.

[3] The Union Bank was a Joint Stock Bank which arose out of the ruins of the Agency Houses of Calcutta. It did business till 1848.

and it closed its business in 1913. The partition of Bengal in 1906 gave birth to the 'Swadeshi' movement and a new era of indigenous activities began from that time. Large and small Banks were established all over the country. Some of the big Banks with their amount of Capital, deposits, Head Office and branches have been tabulated by the Banking Blue Book.[1]

The locale of these Banks.—These Indian Joint Stock Banks are to be found mostly distributed in the Punjab, United Provinces and Madras and in the three Presidency Towns,

[1] Name of the Bank.	Head Office.	Date of Registration.	Paid up Capital lakhs.	Deposits lakhs.	Number of Branches.
1. The Bank of India ...	Bombay	1906	50	470	†
2. „ Indian Specie Bank*	Bombay	1906	75	270	†
3. „ Indian Bank ..	Madras	1907	101	41	4
4. „ Bengal National Bank	Calcutta	1907	3	30	4
5. „ Punjab and Sind Bank	Amritsar	1908	3	30	4
6. „ Bharat National Bank	Delhi	1908	4	1	6
7. „ Bombay Merchants Bank.	Bombay	1909	15	1	2
8. „ Central Bank of India	Bombay	1911	25	357	6
9. „ Bank of Mysore ..	Bangalore	1913	10	61	7
10. „ Bank of Northern India	Rawalpindi	1908	1	6	5
11. „ Ahmedabad Banking Corporation.*	Ahmedabad	1910	7	23	...
12. „ Credit Bank of India*	Bombay	1909	19	51	...
13. „ The Standard Bank*	Bombay	1912	10	..	...
14. „ National financing and Commission Corporation.	Bombay	1912	11	36	1

* These Banks have gone into liquidation during the years of 1913 to 15 Banking crisis.

† Figures not available.

The table in the Banking Blue Book gives a list of the smaller banks with a capital below 5 lakhs.

Calcutta, Bombay and Madras. Rangoon and Karachi also have a great number of Banks and a Clearing House exists in these five above-mentioned places. There are very few Joint Stock Banks in the Native States. But the Banks of Mysore and Bank of Baroda are both doing yeoman service in providing banking facilities for the people of these Native States. Modern banking facilities exist only in 165 places and in most of the big cities there is much of over-lapping.

The business of these Banks.—Generally speaking these banks have two functions before them: (*a*) to develop the money power of the people, (*b*) to provide credit for the millions of people of our country. Thus their main business is to attract deposits and finance the internal trade. In the Punjab an attempt was made to finance industries but it was a failure. They attract deposits for which they pay 4 to 5% for fixed periods[1] above 6 months and 2% on current account after stipulating for a minimum monthly balance, say 200 Rupees or 300 Rupees. Some Banks pay 2% on the amount of daily balances. There is no authoritative statement issued as to the nature of the banking business undertaken by them. No doubt the

[1] The Banks are forced to pay a high rate, a rate which must certainly be above the one offered by the Government of India. As the Government Rupee paper carries 3½% interest, the Banks must pay a higher rate.

Banks are forced to minister to the needs of their clientele and much depends on environment and the intentions of the founders and managers of these banks. A close perusal into the balance-sheet of these several banks will reveal to us that they have been conducting these following lines of business.

(1) They keep current accounts for customers. Interest is paid on minimum balances above Rs. 200 or Rs. 300.

(2) They receive deposits for fixed periods, say 6 months or 12 months. 4 to 4½% is paid generally for 6 months' fixed deposits ; 5% for 12 months.

(3) They discount and negotiate inland bills of exchange. It is by this means they finance the internal trade. Some of the big Indian Joint Stock Banks rediscount the Hundis to a great extent when brought to their doors by the Shroffs.

(4) They advance money on securities and government paper. Overdrafts are granted to regular customers up to a certain limit agreed to at the beginning when an account is opened. The limit of overdraft depends on the standing of the party and the turnover of his business.

(5) They act as pecuniary agents for others on commission.

(6) They issue letters of credit.

(7) They undertake the purchase and sale of Government Paper, Stocks and shares on behalf of their customers.

(8) They realise dividend and interest for their constituents and credit it to their account.

(9) They hold things for safe custody such as jewellery, stocks, shares and investments.

(10) They remit money for customers from one branch to another free of charge.

(11) Many of these Banks have a special Savings Bank Department to encourage small savings.

Failure.—Most of these banks,[1] that arose out of the impetus and stimulus given by the Swadeshi movement, were termed "Swadeshi Banks" and were viewed with jealousy and disfavour. The existing Banks not only viewed the competitors with disfavour but refused to lend a helping hand in times of trouble. The Official Committee of Lahore which was appointed by the Punjab Provincial Industries Committee, to report on the bank failures in the Punjab, writes that "during the crisis there was no co-operation between the Indian Banks themselves or between them and the English Banks or between them and the old-fashioned Indian Banks." A very recent echo of this fact is to be gathered from the first Report of the Karnani Industrial

[1] Tables relating to the failures of these banks are given at the end of this Book.

Bank (August 14, 1920) where the manager alludes to the unsympathetic action of the Alliance Bank of Simla in charging Re. 1 for cashing cheques on the Karnani Industrial Bank. This bank was also refused permission to join the Clearing House in Calcutta.

Mr. Lala Harikishen Lal, 'the Napoleon of Punjab finance' says that "the old banks brought the new ones to trouble and did their best to eliminate the newcomers."[1] The Presidency Bank of Bengal refused to lend even on Government security in spite of the favourable recommendation of its own Lahore Branch. Whatever might be the reason, there was a widespread failure[2] of these banks in 1913, 1914 and 1915. The first big Bank that closed its doors was the People's Bank in the Punjab with no fewer than 70 branches and a crore of deposits. The Credit Bank and the Indian Specie Bank were some of the other big banks that closed their doors. "Owing to the failures of 1913-17 no less than 34% of the total paid-up Capital of the Indian Joint-Stock Banks has been lost"[3] and what is more important than this is

[1] Lala Harikishen Lal's Presidential Address at the Indian Industrial Conference.

[2] Of all the Banking crises which India has experienced, the crisis of 1913-15 was the most widespread one. In 1829-32, in 1857 and in 1863-66 there were banking failures. It is true that much capital was lost then but in the crisis of 1913-15 many of the depositors were ruined.

[3] Mr. G. F. Shirras' 'Indian Finance and Banking.'

the fact that the Indian has again to be educated towards banking business and the "banking habit" has to be created afresh. Just as a burnt child dreads fire the Indian depositor is chary in reposing confidence in the existing banking institutions. Again this widespread failure gave scope for the statement that "Indians are incapable of managing Joint Stock Banks." Pandit Madan Mohan Malaviya has elaborately stated his own defence in the Minority Report of the Indian Industrial Commission. Such failures have occurred in all countries and they are indispensable concomitants to the early era of Joint Stock banking. Next Indian Banks managed by Europeans also have failed.

A close study of the causes that led to the failure of the banks will reveal the fact that mismanagement due to inexperience in banking affairs accounts for most of the cases. The Official Committee of Lahore says: "All the evidence produced before us insisted on the want of business knowledge and experience in Company promoters, managers and staff as a primary cause of failure. There were few competent managers, whether of banks or of industrial concerns. Consequently egregious blunders were made and some of the so-called dishonesty seems to us very like ignorance, much of it was due to anxiety to cloak losses."

Thus the first and foremost reason for our Bank failures is the fact that men were inexperienced. The Directors did not know their duty. The managers were incapable and the shareholders were ignorant of their rights and duties.

Most of the Directors that were elected to supervise the manager's work and help him with their advice were wrongly chosen and they were never able to perform their duties. The first acknowledged duty of the Bank Directors is to see that the funds of the Bank are safely employed. They should not interfere too much with the administrative routine of the office. They must realise that the Secretary's opinion is entitled to great weight but must at the same time, be not easily carried away by his wishes. They should be men possessing reliable knowledge of the accounts, business and general working or policy of the bank. The Directors should be men of weight and influence in the community. They should moreover have a stake in the bank. They should be men possessing independence of character. The Directors should have moral courage to refuse better terms to a Director than an ordinary borrower. The Directors of these banks were no doubt successful merchants or were men distinguished in one walk of life or other but the mere fact that they have managed one kind of business successfully is no guarantee of their ability to

work as Directors of a Joint Stock Bank. Again many of the Directors were easily led away by the opinion of the manager. There was a story current in the Bombay trading circles that the Director of one Bank did not know English and when the proceedings of the Board were being conducted in English he simply used to side with the majority of the Directors. Such kind of men can never influentially dictate the banking policy. Of course we had no 'Guinea-pig' Directors but still the first batch of Directors of the Joint Stock Banks knew little of this banking business conducted on the Joint Stock principle.

The managers of the Banks were incapable men and had very little knowledge of banking theory. No doubt they were men of some experience but an efficient manager of a Joint Stock Bank should possess these sterling qualifications before he can make his bank quite a successful one. George Rae's practical advice on this matter is worthy of quotation.[1] "There should be total absence of bias, religious, political or social in his mind. The manager should be quick enough to perceive any change in the circumstances of the customers. He should not lend a loose ear to the words of the customers. There should be no hesitating and dubious and capricious manner. He should be

[1] George Rae, "Country Banker."

never indolent. The manager whenever he is in a doubt as to the safety of transaction, should give the Bank the benefit of doubt. The manager should never fly into a passion nor bandy words with customers. The manager should see that all customers are treated respectfully by his officers. In short, he should not tolerate any insolence of office at his bank." The managers of our Indian Joint Stock Banks were sadly lacking in many of these essential qualities. It has been stated that these managers were dishonest and selfish but Pandit Balak Ram Panday, Auditor of Accounts, Lahore, in his evidence before the Indian Industrial Commission, said that "when we compare the recent bank and industrial failures in the Punjab with similar incidents in other countries, we are astonished at the comparatively small proportion of cases in which the failures in our case were due to dishonesty or selfishness. The price we have paid for our inexperience is undoubtedly heavy but it is by no means heavier than what other countries paid before us. If we have only learnt the lesson which the disasters of the last four years so impressively teach, there is surely no room for despondency."

Again, the shareholders never knew their duties properly. The shareholder should realise that he is a co-partner with many others,

George Rae[1] writes that he should make no line of hostile remark against the bank in times of run. Whenever he hears bad rumours, he should in the first instance convey it to the manager. He should not give currency to any calumny against his bank. He should be the guardian and police of banking credit. His duty is to stand by his bank in times of panic. He should not sell the shares at the times of a panic for he would become a bell-wether followed by a score of sheep like himself. His primary duty is to increase the business of his Bank and bring more customers to the Bank. The shareholders must be in a position to "put the saddle on the right horse" and see that the officers of the bank are doing responsible duties in right earnest. In no case should they forget the fact that the manager is their paid servant and not a master. Failure to realise this fact would lead to giving the manager too much power which would ultimately spell ruin and harm to the Bank." The Indian shareholders of these Banks were never aware of these responsible duties and they placed too implicit a confidence in their salaried staff to question their doings. Again many of them were not in a position to scrutinise the balance-sheet of their bank and climb over 'the balance-sheet dodge' as it is

[1] George Rae, "Country Banker."

styled. Thus many of the failures of the Banks were due to the fact that all the classes concerned with the management of a bank were inexperienced men and the failure was the inevitable penalty of our gross inexperience in matters of banking.

Some other causes have also hastened and accelerated the downfall of the Banks. They were (1) The difference between the "Paid-up Capital," Subscribed Capital and Authorised Capital. While the Capital was small the incidence of cost was very high. Liberal salaries, travelling and halting allowances, high commissions to agents and canvassers were paid. This led to trading on the ignorance of the public who were not aware of the difference between the three kinds of capital. To curb this malpractice a heavy stamp duty has been recommended by J. M. Keynes.[1] But every Bank should be forced to have a certain amount of minimum paid-up Capital, say 50%, before it commences business.[2]

Some of the banks contracted the practice of lending money on their own shares.[3] The

[1] Keynes Indian Currency and Finance.

[2] Such a rule prevails in the Canadian Banking System. The minimum required capital of a bank is $500,000 of which all must be subscribed and one half paid before a new bank can open business.

[3] The difficulties of the second Bank of the U. S. A. started in 1816 were due to this bad practice.

failure of the first Benares Bank[1] and that of the Credit Bank of Bombay are attributed to this pernicious practice. It is a matter of great satisfaction to see that the Presidency Banks are not allowed to lend money on their own shares. It is proposed now to relax this restriction and permit the Presidency Bank to take up its own share as an additional security for covering loans. The charter of the Imperial Bank of Japan forbids the making of loans on the security of its own shares or purchasing the same.

In some cases there was no strict auditing of the accounts. It was a mere farce and the auditor to secure the favour of the manager was lax in his duties and connived at the bad practices of the managers. The auditor should be a man of much experience in the science of book-keeping and an expert in the analysis of accounts. His main duty is to place the facts as they appear to his light. He should not hoodwink the public. He should be "the detective of the shareholders who should keep a vigilant eye on the Directors always. The auditor should see that the directors are not nursing huge and growing accounts year after year long after they have become doubtful. This is the grim skeleton in the banking

[1] It should not be confused with the present Benares Bank which is doing business on sound lines.

cupboard and he should expose it to the shareholders.

Some of the Banks indulged in speculative commitments. The Indian Specie Bank's purchase of silver,[1] and its attempt to corner silver became a miserable failure and led to the closing of its doors. This was one of the many factors which brought about its downfall.

Many of the banks were performing quite the opposite of Commercial Banking business. Instead of making all their assets easily realisable or keeping them in a liquid shape, they invested them, on long-dated securities and "locked up" their funds in an unrealisable manner so that they were no longer "quick assets." The Banks failed to realise the difference between 'immediate' convertibility and 'ultimate' convertibility. What the Commercial bank should aim at is "immediate convertibility." All its short-dated deposit funds can be demanded at any time and if these short-dated funds are invested in long-dated loans or lent to entrepreneurs for long periods the Bank would be caught in a sorry predicament some time or other. That the Swadeshi Banks were not altogether in a despicably rotten state is proved by these two facts. The survival of the Punjab National Bank shows what an

[1] S. V. Doraiswami, "Indian Currency and Finance."

Indian directorate and staff are capable of doing in trying circumstances. Many of the liquidated Banks[1] have paid in full and this proves the fact that all the Banks were not thoroughly unsound. The only pity was that these Bank managers have failed to realise the vast difference between 'immediate' and 'ultimate' convertibility. They did not realise that the substitution of the latter for the former, meant the question of life or death to the bank. The principle of liquidity of assets should be borne in mind by every cautious banker. Dr. Reisser says that "the security and maintaining of the liquidity of assets is another most essential task incumbent on a banker. Indeed in view of the variety of claims made on the resources of bankers and banks and of the multitude of aims pursued by them, it is one of the most difficult problems of banking policy. It is all the more difficult, since the establishment of the right proportion of the so-called "quick assets" to the liabilities especially to the obligations falling due at any time, or within a certain period, does not always depend solely on the will and discernment of the bank. Possibilities have to be reckoned with, for instance, that the issue of new shares required to restore the necessary liquidity of the banks resources after a great increase of business is impossible during bad or

[1] The Marwari Bank and the Punjab Co-operative Bank.

critical times; that consequently its assets would be tied up just at the very moment when it might be called upon to relieve general embarrassment by proper intervention."[1] The managers of the Indian Joint Stock Banks should realise this principle and follow it up in practice. They should constantly control the liquidity of their resources by frequent general inventories (*General dispositionen*) with the greatest care and at short intervals in addition to the daily cash inventories (*Kassen dispositionen*). They should always have an eye on the obligations of the bank and their due proportion to liquid resources should never be interfered with. They should also try to have a proper composition of security and holdings in their portfolio.

Most of these Indian Joint Stock Banks paid a very high rate of interest to the depositors. The Bank of Burma undertook to pay six per cent. on deposits. In order to earn this, business out of the banking line had to be conducted and this precipitated its downfall. The Australian Banking Crisis of 1893 was the result of such a competition for deposit rates. Ruinous rivalry produced by competing deposit rates forced the banks to entertain illegitimate business and this was one of the chief causes for the failure of the Australian banks.

[1] Dr. Reisser, "The Great German Banks" (National Monetary Commission, U. S. A.)

In some cases, notably two or three, banking business included medical attendance and coach-building. The Hon. Mr. (now Sir) T. Smith of the Allahabad Bank while giving evidence before the Chamberlain Commission said that "an institution has no right to be called a Bank which undertakes coach-building, ekka repairs and medical attendance, the manufacture of soap and oil and certain things from machinery or engages in trade or manufacture of any sort even though it be stated as follows: "the leasing, hiring and purchasing of all commodities and substances which can form the subject of purchase or sale." It is the banker's profession and duty not only to take care of the capital but to turn it to good account that is to make it productive, particularly by placing it at the disposal of others for industrial and other productive purposes.

The Presidency Banks did not realise their function of being "Residuary Trustees" and "Banker's Banks." As Mr. J. M. Keynes has said "they are not strong enough to support the whole burden" and their apathy towards the struggling Indian Joint Stock Banks has been criticised by the Lahore Committee in its evidence before the Indian Industrial Commission.

Some of the Indian Joint Stock Banks were got up to satisfy some transitory caprice and

did not arise to satisfy the legitimate banking and trading requirements of the people. In the city of Bombay, some Banks arose in this way because the powerful magnates who were not included in the directorate of a Bank, got up another one under their patronage and thus some of the Banks were the creation of interested parties and they have not been created in due and legitimate response to the growing requirements of business.

The jealousy of the Exchange Banks it has been said, has brought about the failure of the Indian Specie Bank. This Bank under the able guidance of the late Mr. Chunilal Saraiya opened a branch in London, with a view to facilitate its business in pearls and silver. The Exchange Banks feared competition in their exchange business and the failure has been attributed to the jealousy of the Exchange Banks. But as a matter of fact its speculative purchases of silver and the refusal of the Government of India to buy silver at its hands have precipitated its downfall.

In some of the Indian Joint Stock Banks, the Bank officials took too much of the loanable money and invested it in their own enterprises. The failure of the Lahore Bank, the Doaba Bank and the Industrial Bank was due to this fault. The Bank of Burma was established in 1904 and failed in 1911. When it failed it had a working capital

of a crore and 19 lakhs. It was found that $\frac{1}{3}$ of the working capital had been advanced to a firm in which the Directors were interested. The management of this Bank was in the hands of a European and not an Indian was the sly comment of Pandit M. M. Malaviya.[1] The sinking of too great a proportion of the Bank's funds in one industry is a grave evil and this has not been heeded by the manager of the above bank. No Bank should commit the fatal mistake of "placing all its eggs in one basket." The Bank should never get itself entangled in one or two or three huge and overmastering accounts, the smashing up of such a big customer would spell disaster to the Bank. The failure of a score or dozen of small accounts matters not much. As a matter of fact, during the course of every day run of its bills, advances, overdrafts and investments some bad debts may be created here and there but these will not be a matter of great concern. The Bank should never forget the cardinal principle that hundred men responsible for a large sum is far better than one man being responsible for this huge amount. Dr. Reisser calls this the principle of the "Distribution of risks."

Excessive interconnection and the interdependence of Banking and Industrial concerns under

[1] M. M. Malaviya "Minority Report" Indian Industrial Commission,"

a board of common Directors as in the case of the Punjab companies should be deprecated.

Some of the Joint Stock Banks had often big and alluring names and these big names of these Banks often misled the people as to the actual strength of the institutions.

Many of these Indian Joint Stock Banks had not adequate Reserves against deposits and the percentage of cash to its liabilities was only 11% and in some cases it was lower than this. The Exchange Banks and the Presidency Banks kept a much higher percentage of cash against liabilities than this 11%.

In some cases "the dividends were paid out of the deposits that were coming to the Bank for the Capital of the Bank had disappeared long before this time. The balance sheets of some of these Indian Joint Stock Banks were very good instances of window-dressing.[1] Some banks adopted the evil of window-dressing deposits and manufactured blooming balance sheets showing a large amount of subscribed and paid-up Capital, bulky assets and declared dividends whereas those Banks were really working at a heavy loss.[2] The practice of paying dividends when they were not earned was not given up.

[1] Mr. G. F. Shirras, Indian Finance and Banking.

[2] Evidence of Rai Bahadur Lala Damodar Das, *vide* "Industrial Commission, Volume V, p. 255."

Such and similar instances of mismanagement of the banking business can be quoted but the two fundamental causes that led to the collapse of our banking institutions in the years 1913-15 are as the Official Committee of Lahore presided over by Hon. Mr. Maynard has stated (1) the inexperience and the defects of the machinery inevitable to the starting of every new venture, (2) the lack of palliative or remedial action such as Government itself or quasi-Government Agencies, *i.e.*, a State-supported provincial Bank, might supply."

Again the practice of mutual drawing of accommodation bills between the various Banks which we meet with in the foreign Money Markets would have been of some help to the sound banks.

The failure of these Indian Joint Stock Banks led many people to think that legislation would be the needed panacea for our banking ills. Many requested the Government to pass legislation binding on the Banks for the proper conduct of their business. It was thought that the word " Bank " should be strictly defined and the banking business that can be undertaken by the Banks should be regulated according to a set of well-laid down rules for which an expert banking Committee should be appointed.

One extreme school of thought inclines to the view that the Government should train

people in banking matters by establishing model banks; regulating the other banks and that strong banking laws should be passed to prevent dishonesty and fraud.

Dr. Reisser's famous advice should be remembered in this connection. "State laws and State intervention or supervision lulls the public into a sense of security and safety. State supervision is purely illusory and inadequate and as one Comptroller of Currency (United States of America)has said that as a rule mistakes are detected only after the failure has occurred and so no supervision by outsiders can serve as a substitute for the honesty and competency of bank managers." So according to Dr. Reisser the essential thing over and above all precautions, in banking business is the honesty, the efficiency and trustworthiness of the bank managers.

Mr. Hartley Withers, one of the greatest authorities on the English Banking system, says that "not good laws but good bankers that produce sound banking." In the light of these remarks, one can see what legislation[1] can do to check the malpractices of bank officials. It will not be wise to expect much from any system of external examination. After all, it does nothing but verify a banker's statements and books. The

[1] This does not mean that legislation is altogether unnecessary but too much reliance should not be placed on these laws as a panacea for onbanking ills.

soundness of every large banking undertaking or transaction depends on the judgment of the general manager and the board of directors.

The rise of good bank managers in our country is a question of time and experience. Many indigenous managers of Joint Stock banks have been performing their duty conscientiously and with ability. Many such people are wanted. The great desideratum at present is the production of "sane, sound and trained bankers."

It would do well for all those who are concerned in the management of these Joint Stock Banks to remember that the cardinal principles which all bankers should have in mind are profits and safety. It is a well known fact that the shareholders of a Bank always hanker for large dividends and they always induce the manager to pick up precarious profit and a cheap popularity on an inadequate reserve. But such a line of action is detrimental to the interests and the future prosperity of the bank. The Bank manager should always aim at a safe and steady progress and remember the truth of the adage "slow and steady wins the race."

The manager of a Bank should realise that the depositor's money is liable to be called away at any inconvenient time and it would be an unwise thing for the Bank to be unprepared for such an emergency. It should be ready to satisfy the depositor and this

can be done only by maintaining an adequate reserve. The Reserve should not only be sufficient to meet the claims of the depositors but it should be strong enough to meet the probable demand for discounts and advances which are a matter of constant variation and hence the Reserve should be of such a dimension as to meet all possible demands. But any extra amount over and above this limit is "idle cash" and it is entirely non-productive. It is left to the management to discover the happy "*via* Media" which will secure that greatest profit without the least endangering of the banking business.

There are many eminent bankers who hold the opinion that a Cash Reserve fulfils the following purposes: "It supplies the till-money and it serves as a guarantee to the customers as to the soundness of the Bank's position and the cash reserve is the premium paid by a Bank to ensure its business against a run and the larger the premium or proportion of cash held against deposits, the less should be the liability to panic." It would do well for the Indian managers to bear this in mind and act up to this policy.

Table illustrating the growth of Deposits in the Joint Stock Banks on December. 31st.

Year			
1900	(Lakhs of Rs)		807
1912	,,	,,	2,776
1913	,,	,,	2,410
1915	,,	,,	1,888
1919	,,	,,	6,127

CHAPTER V

The Indigenous Banker

The terms 'Banks' and 'Bankers' are quite modern but the profession is an old and time-honoured one. The word 'Banck' was a German term signifying a joint-stock fund. The Italians succeeded in converting the name 'Banck' into 'Banco' meaning a heap of money or an accumulation of stock. The common derivation of the word 'bank' from the counter upon which the Italian money-changer was wont to lay out his stock, has been ridiculed by H. D. MacLeod on the ground that "the Italian Money changers as such were never called Bancheiri in the Middle Ages."[1] Whatever might be the origin of the word 'bank' we see that the etymology of the word 'bank' suggests an origin which would trace the history of banking in Europe from the Middle Ages.

The Meaning of Banking.—Originally banking has had its origin in the efforts of individuals to supply certain primitive wants of an advancing community, namely, lending and receiving deposits. The process of satisfying these

[1] H. D. MacLeod: "Theory of Credit," Vol. I, p. 90.

wants was by means of a few perfectly simple operations. But with the evolution of time, these individual wants sank into insignificance and the unforeseen, much disputed and ulterior effects of a banking system have been recognised and these have been cited as some of the reasons for introducing a banking system in every modern community. The primary and original functions of banking, namely, lending and receiving deposits are still the important functions but a great variety of services are being performed by banks and with the advent of specialisation due to the progress of society we find a diversity of banking operations, as well as institutions. It has fallen to their lot to finance industries, to liquidate international indebtedness, to manipulate the currency system and lastly to mobilise credit.

H. D. MacLeod says that "the meaning of the word 'to bank' is to issue credit."[1]

C. A. Conant describes the banker as a "trustee" of the money of his depositors and still more important than this, is that he is the "trustee of the mechanism of credit for the entire community."[2]

Gilbart[3] lays down the following banking functions—"provision of safety deposit vaults,

[1] H.-D. MacLeod : "Elements of Banking."

[2] C. A. Conant: "Principles of Modern Banking, Vol. II.

[3] Gilbart : "Principles of Banking Michie's version, pp. 213-222.

payment of interest on deposits, making of loans, exchange of funds between places, changing of currency denominations, collection of notes and drafts." In his opinion "the Banker should gather money in small sums and transfer it in larger amounts to borrowers engaged in trade and commerce."

The well-known definition of the three-fold functions of a Banker as given out by Dunbar need not be quoted in full. The three functions he speaks of, are deposit, discount and issue. While "the Banker creates no new wealth by his lending and deposit holding; he directs the existing capital to the enterprises and industries most in need of support and quickens the succession of commercial and industrial operations." [1]

Horace White defines a "Bank as a manufactory of credit and a machine for facilitating exchanges." He defines the discounting function of a banker as "the swapping of well-known credit for less known credit." He adds that the "banker enables the most deserving persons in the community to get capital" and "performs a service to society by economising tools and materials."

Holdsworth [2] says that "commercial Banks receive deposits of cash, check, drafts and make

[1] Dunbar: "History and Theory of Banking", pp. 5 and 9.

[2] Holdsworth: "Money and Banking", pp. 148-49.

loans to the business public by discounting or purchasing commercial paper. It also provides a medium of exchange through the issue of circulating notes. Speaking of the commercial Bank as a manufactory of credit he says that business credit cannot be conveniently used for current business transactions but bank credit in the form of checks and drafts is widely acceptable."

H. Parker Willis[1] says that "the dominant function of a Bank is that of guaranteeing the limited or individual credit of each individual by accepting it and substituting in lieu thereof the Bank's own secured note for example to a Bank and discounts it and then draws checks against his account at the Bank and he has simply substituted the Bank's credit of more general acceptability for his own credit of limited acceptability." In his opinion "the bank is an institution for the study of credit and for guaranteeing its judgment on that subject.

Scott[2] writes that the "customers of a commercial Bank sell to it their surplus cash and credit instruments representing payments due to them from other persons and make loans from it secured by their personal notes due to them as a result of their transactions they are credited on the books of the Bank in a form known as deposits. Making of loans and

[1] H. P. Willis "American Banking", pp. 3-4.

[2] W. R. Scott: "Money and Banking," pp. 108-109.

discounts is a function correlative with that of conducting deposit accounts. It may be described as the process of advancing deposit accounts. It may be described as the process of advancing funds on the security of personal notes." He adds that it is the business of the Investment Bank institutions of a country to see that the work of directing the savings of the country into its various enterprises is economically and efficiently done."

J. L. Laughlin with his characteristic lucidity says that "the business of the Bank consists of dealing in the commercial paper which grows out of current transactions. When a man desires funds for a long period he should get them not from the Bank, but from those who have spare capital to invest for some considerable period of time. The bulk of Banking business consists of instruments evidencing claims upon individuals, stated in terms of money and resulting from operations requiring a comparatively short period for their consummation."[1]

G. D. Chisholm in his article on Scientific Banking says that "the Banker is the trustee of the resources of others. He is the trustee of the nation's security. He is the trustee of the nation's material feature."[2]

[1] H. G. Moulton's quotation from J. L. Laughlin's Banking Reform, p. 76.

[2] G. D. Chisholm: "Article on Scientific Banking" for of I of B. London, 1918.

From a simple dealer and broker in money the Banker has become the arbiter of a nation's industrial organisation and even of the fate of Nations as Conant has put it.[1]

The development of Banking in Europe.

As Conant has proved the forerunners of modern Bankers were "the individual money-changer, the Jewish money-lender and the Lombard Banker."[2] As industry expanded by leaps and bounds and as centralised Government emerged out of the welter of political chaos and as national life became organised the necessity for public Banks arose. The Bank of Amsterdam rose to remedy the defects in the currency circulation of Holland. The Bank of England would not have come into existence so soon but for the necessity to finance the Dutch Wars of William III, King of England. So European Banking understood in its modern sense, is barely three centuries old. But India on the other hand had a widespread banking organisation some centuries before the modern term 'bank' has been coined.

The origin of Banking in India.

Evidence is forthcoming in abundance that the business of banking was perfectly understood

[1] C. A. Conant: "History of Modern Bank of Issue."

[2] C. A. Conant: "Principle of Money and Banking," Vol. II.

by the people of ancient India and fairly practised by them. Dr. Pramathanath Banerjea in his work "Public Administration of Ancient India" quotes from Gautama, Brihaspati and Baudhayana verses which regulate the rate of interest. The Institutes of Manu give us rules regarding the regulation of interest and the policy of loans.[1] Kautilya also has some advice on these points.[2] Sir W. W. Hunter in the Imperial Gazetteer of India has given us valuable information as to the manner in which a private Banker sets up his business. The late Mr. B. M. Malabari the well-known South Indian Journalist and social reformer has given us some glimpses into the working of our indigenous system of banking in his book entitled "Guzerat and the Guzeratis." Sir Richard Temple[3] testifies to the fact that "banking business was carried on by our ancients. He estimates the number of bankers to be one hundred and eighteen thousand adult males of which some are money-changers. There are half a million of villages and there are about two bankers to every village." The 1911 Census estimates the number of 'bankers' to be about 'half a million' but it has included bank managers, money-lenders, exchange

[1] Burnell and Hopkins 'Ordinances of Manu.'

[2] Kautilya's 'Arthasastra.'

[3] Sir R. Temple Lecture before the Institute of Bankers in 1881, Vol. II for of I of Bankers (London).

and insurance agents, and money-changers." Dr. R. Mookerjee[1] cites literary and epigraphic evidence as regards the prevalence of banking in Ancient India.

But no connected historical account of our indigenous banking system has ever been written due to the paucity of materials. Secondly, no statistical information has ever been collected by our previous rulers. Thirdly, the lack of political tranquility for a number of years must undoubtedly have told very seriously on the banking houses. Lastly the bankers, plied another occupation notably that of a merchant. A banker *quâ* banker did not exist in the past. He is something more than a mere banker. Strictly speaking there are no indigenous 'bankers' in India. What everybody calls 'bankers' are either money-lenders lending either upon landed security or other property or agricultural produce or, else, are ordinary merchants. The Hoondies are not used for ordinary purposes of banking but for conducting the great inland trade in agricultural produce and also in industrial products.

Many of the indigenous Bankers held high political authority at the Mogul Courts and the advent of the British Rule has no doubt destroyed their political importance and prestige. The political influence of Jagat Seth and Umichand

[1] Dr. Radhakumud Mookerjee: "Local Government in Ancient India."

during the Plassey days is well-known to readers of history. The Seths of Madura exerted much political influence which is well-known to readers of South-Indian History. History has recorded that these bankers financed the wars of the petty princes and granted loans to their principalities. The Nagerseths of Bengal financed the local Nawabs. The Peshawas of Poona were financed by these bankers. One Bansilal Abhechand financed the Government of Bengal during the days of the Great Sepoy Mutiny of 1857.[1] The indigenous banker continued his avocation undisturbed during the times of the East India Company and although deprived of his political importance he was playing no mean role in financing the internal trade of India. It might be quite true that the pristine honesty and scrupulous regard for truth which were some of the salient features of the ancient indigenous banker might have been dimmed by the more materialistic tendencies that have been introduced of late into the calm and placid atmospheres of our social life. Either this fact or "the passing of the English Law of Bankruptcy has demoralised the Native bankers in the Presidency towns."[2]

Many of the indigenous bankers might have disappeared or fallen into ignominy

[1] *Times of India* (27-9-1895).

[2] Sir Richard Temple "Journal of the Institute of Bankers."

but the business itself is still being carried on, in the same old lines as before. The Joint-Stock Banks, the branches of the Exchange Banks, the Presidency Banks and the new-born Co-operative Credit Societies whose number is legion have all invaded their sacred precincts and are seriously competing with them for business but they are holding their own limited business though in a less restricted sphere than before. Come what may, they do their business in the old traditional manner and show no signs of adopting their business to the altered circumstances of the present day. Solidity of business is no doubt a prominent feature of the indigenous banking houses but they are lacking in adaptability and initiative, which characteristics also, a sound banking system should possess. Solidity or stability, adaptability and initiative, are the triple tests on which the utility or otherwise of a banking system is judged and when the nature of the banking business of our indigenous banker is examined attention will be drawn towards these points.

Several names.—The indigenous bankers of India are known by several names in the several parts of India. The most common names by which he is known, are Saucar, Bania, Chetty, Mahajan and Shroff. The indigenous banker is a well-known figure and has almost become an indispensable figure in our social organisation.

He is not only to be met with in the Presidency towns where he goes under the appellation of 'shroff' but even in obscure villages, far off from the abode of civilisation. Here he is known as the 'Bania' or the 'Saucar.'

The business of the indigenous banker is purely a family concern and hereditary in the family. It is more or less an ancestral occupation in the family. So banking business in India is usually conducted by a class. The father of the family is a banker. He transmits the knowledge and good-will of his business to his son and so on. So the class has not been strengthened by the infusion of fresh blood into it.

No new ideas take hold of the business-man. His conservatism is of course a strong asset and saves him from many a bad debt. He is a mere private capitalist. Many of these people own princely sums and a close scrutiny of the list of subscribers to the Indian War Loans will reveal the munificent sums that have been invested in them by these individual bankers. They are averse to the principle of Joint-Stock banking. In many of the towns they form private partnerships managed by the senior partner. They never reveal their transactions to the public. They shun the light of publicity and refuse to publish figures revealing the extent and magnitude of their business. They are most courteous and indulge in gossiping.

They entertain you on a variety of topics but they set a seal on their lips as soon as the drift of conversation turns to their private matters.

But the one great distinction is that this private Bank is always in the hands of one family. A man who originally starts a private Bank may be a good banker, financier and business-man but it does not always follow that his son, who in all likelihood and certainty will inherit this business, will be capable of running it. The private Bank wants continuity of family. It wants continuity of young men coming on who are willing to work and who have the ability to work successfully. It is difficult to find that all these factors are satisfactorily obtained in a private Bank. The efficiency and driving power which are to be found in Joint-Stock Banks are seldom visible in these private Banks. The Joint-Stock Banks do not go from father to son but are always under efficient and capable management. This is one feature that is telling heavily against the indigenous Bankers and their firms. The verdict of history has gone against them especially in England. The private Banks are being absorbed by big Joint-Stock Banks and though a solitary private Bank may exist here and there the rise of big Banking combines or Banking amalgamations, competition with which is hopeless, is slowly leading to their gradual effacement.

This disappearing of the private banker is not visible in India as yet because Joint-Stock Banking has not spread itself in the interior of the country but with the growth of numerous co-operative credit societies the limits of the indigenous banker's business are being slowly circumscribed. A serious and grave warning has been given that they have outlived their period of usefulness and many a Mahajan views with disfavour and sullen discontent the progress of the co-operative credit societies and understands that his occupation is gone. But the process of extinction is not yet begun and so long as branches of Joint-Stock Banks do not extend far and wide and penetrate to the interior of the country, the indigenous Banker has free scope to pursue his business.

Some of the big indigenous Bankers[1] have their agents at all the important trade centres of the interior. These agents or 'gomasthas' are sometimes called 'Moonims.' These are oftentimes changed from centre to centre in order to enable them to understand the local conditions of these several places and when once the Agent is made permanent he serves the employer the whole of his time, and devotes his whole energy to the success of his firm.

[1] The village Sowcar who is more a lender of money than anything else, keeps no accounts and the Marwari Sowcars keep a memorandum book in which they keep their accounts. But there is no elaborate system of book-keeping in this case also.

Although the pay given generally ranges from Rs. 30 to Rs. 60 a month, dishonesty on the part of these officials is of rare occurrence. These send weekly accounts of their work to their head office and occasionally receive instructions from the head office. Their books and accounts are written in the local vernaculars and they are carefully audited by the indigenous banker himself. This personal supervision goes a long way in preventing fraud on the part of the officials and it also gives a close mastery of facts and figures relative to the business. This vigilence of supervision is a praiseworthy feature and leads to making their business quite stable and the whole business being conducted on conservative lines makes no allowance for the creeping in of bad and doubtful accounts.

Every year on the 'Deepavali' day, they worship their books and distribute alms to the deserving on that particular day on a most lavishing scale. The Brahmins are fed with sweetmeats and other luxurious dishes and given a handsome 'dakshina' or present on this new year's day for them. The new account books are placed on the same pedestal as the goddess "Vara Lakshmi" and worshipped. Some of the indigenous bankers set aside a small moiety of their gains in a small charity box on each and every item of profitable business. In big cities where

a number of these bankers transact business, these gains are collected and their general Association[1] determines the best manner in which it is to be spent. They are well aware of the dictum that "charity begins at home" but are not forgetful of the saving clause that "it does not end there."

Functions of the Indigenous Banker.—The indigenous Banker is a dealer and broker in capital. His main business is to lend money. It is not purely a case of personal security that he wants but the indigenous banker is the most inquisitive of all mankind and the customer has to give him his free confidence. Since the loans are generally for performing social functions or other unproductive purposes, he takes good care to take sufficient collateral securities to balance the amount of his loan. He deducts interest beforehand and pays the outstanding balance to the customer. He takes care to collect the debt by monthly instalments. His rate of interest is often so high and he is so exacting in his terms that he has been termed

[1] Even in the matter of helping poor and deserving people, one prominent member of the Association heads the subscription list and passes it along to other members and each member of the Association contributes his own quota The common realisation of their aims, their solidarity of interests, their spirit of mutual help and co-operation, are all noteworthy features. The Indian Joint-Stock Banks have no Association of their own. The existence of such an Association would teach them all these necessary qualities that conduce for success in their business.

the "Indian Shylock." But there has been a marked fall in the rate of interest due to competition from the co-operative credit societies and the increase of stability and security due to the British Rule. The high rate of the rural banker is due to the worthless security of the ryots on the one hand and the difficulty of collecting it has also to be reckoned by him

Again the financing of agriculture which is largely dependent on monsoon and which is only a seasonal occupation, means half-time occupation for money. Money is not employed all round the year and so it has to earn a high rate of interest when it is employed. This is no attempt to vindicate the usefulness of the village Mahajan or the rural banker of India. Sir T. Morison has proved that his existence is clearly a benefit to the Indian ryot. Sir D. Ibbetson and Dr. Radhakamal Mukerjee have each a good word to put in for the rural banker. He supplies capital in doles and protects the ryot from the rapacious hands of the landlord. Thanks to the co-operative credit societies the predominance of the rural banker is fast decaying and he is daily losing his ground. Mr. H. Wolff remarks that 'co-operation brought money to many a spot thirsting for it, replaced hopeless insolvency by solvency, liberated many from the usurer's yoke and

awoke many a Mahajan or Sowcar to find the fact that his occupation is gone.' As the co-operative societies are gathering strength and are beginning to work successfully the Mahajan himself is drawn into the vortex of the society. He supplies the capital as he finds better security and no risk when he lends to the co-operative society. It has been recommended by high authorities that the co-operation of the Mahajan is to be enlisted because he is the only educated man knowing something about banking and if his services are enrolled in the cause of the co-operative society it will not only result in the elimination of a dangerous competitor and rival but will bring the aid of his expert knowledge to a just cause.

Comparison with the Money-lending Policy of the Western Banks conducted on the Joint-Stock Principle.

The Commercial Banks of Europe do not grant loans for long periods and lock them up in unrealisable assets. They always prefer "liquid" assets. In as much as deposits are liable to be called upon at any time, it is a suicidal policy on the part of the banker to invest them on loans for long periods. "All the assets of the Bank should be within quick and easy control of the Bank." This is

the well-known principle of "liquidity of assets" which a banker should follow. But the indigenous banker in India does not conform his business to these principles. He lends money to people on every kind of security, preferably land, real estate, and jewellery. In as much as the working capital is his own, he is not afraid of any run.

Again the European Banker weighs each debt by itself, *i.e.*, he grants loan on sufficient collateral security placed in his hands but the indigenous Banker balances good against bad debts. He distributes his risks among his various clients. When a higher and more tempting rate of interest is offered, he willingly hazards the risks, but, of course, he has the common sense to take some kind of security. So the necessity to write off bad debts is less urgent in the case of the European Banker and the native banker though he does not lose his capital, gets it locked up in real estate or other property, so for some time at least there is a temporary diminution of capital with which the business is run. The indigenous banker does not understand that the "Banker should be a liveried stable-keeper who must keep his horse always ready for hire." The indigenous banker should realise that "banks are made to make capital circulate not to lock it up" as P. Leroy Beaulieu has said.

Again there is much truth in the sarcastic remark that the Indian banker's motive in

granting loans is not a laudable one. He trades on the misfortunes of his clients. The client is pampered with fresh loans and loans upon loans till he is over head and ears in debt. The only way to extricate himself from the money-lenders' clutches is to bid farewell to the mortgaged property. The like condemnation cannot be extended to the village banker of the better class, with whose useful services the rural communities of India have at no time been able to dispense. The above description applies to the "Marwari" usurer who seems to be the diseased product of a diseased community.

Another notable feature already alluded to is the close personal knowledge of the clients he insists upon having. He must satisfy himself as to the ways and means of the income of his client and also he insists on possessing some knowledge of the way in which the client spends his income. This prudent way of managing his business is a praiseworthy feature.

The European Banker will not allow his reserves of gold to remain permanently higher than what he considers necessary for the purpose of his business. To do so, would amount to neglecting to take a profit in his business which could be safely secured and that is a course which the banker does not adopt. When his reserves are in excess of his requirements, the banker lowers the rate of discount, issues credit to a

greater extent and sees his reserves gradually reduced to that amount below which he considers it unsafe to allow them to fall, *i.e.*, the "apprehension limit" as Bagehot would put it. Owing to the ebb and flow of business there may be at times a superfluity of gold at the banks or the reserves may fall below what the bankers consider safe but the guiding principle is that the supply of the gold should be fully utilised. The indigenous banker on the other hand lays much importance on the rate of interest and he would prefer to have the stock with him rather than lower the value of the wares which he places in the market.

Money-changing (*i.e.*, the exchanging of one kind of coin for another.)—The name "Poddar" was given to the banker who specialised in this business. In the former times there was a variety of coins issued from a number of mints. With the breakdown and gradual disintegration of the Moghal Empire the various Indian potentates set up their own mints and minted their own coins. This made the existing confusion all the more confounded. It was calculated that 100 different coins of gold, 300 of silver and 50 of copper, did circulate at one time in India. The money-changers used the multifarious currency to their own advantage. The money-changers were the contractors in the Native States for the mint. Up till the year 1793 there

was an endless trouble and disturbance due to the multiform native coinage. The East India Company began to mend matters and not till 1835 could a definite, well recognised and uniform coinage be issued in silver. Up till this time the money-changers used to ply a lucrative business but now this source of profits has disappeared.

Deposits.—The European Banker is more a borrower than a lender, *i.e.*, he attracts much money in the shape of deposits, part of which he utilises in granting loans or overdrafts. Even while discounting bills of exchange the modern banker gives the right to draw money on him and this takes the shape of a book credit with him. The customer can draw a cheque to the full amount or may increase his current account balance with the banker in order to draw upon it at a later date. Thus in the civilised communities where banking is fully known and practised, deposits arise in three ways, *i.e.*, (1) by actual deposit of cash paid across the counter, (2) a loan may become a deposit, (3) the discounting of a bill of exchange may lead to a deposit. Thus by these three ways the banker succeeds in making the community lend so much capital and it is with this borrowed capital he does his business.

The indigenous banker attracts very little money in the shape of deposits. This is partly

due to the fact that the 'banking habit' has not taken hold of the people as yet. He makes no attempt *to attract* deposits but he *keeps* the money that poor people generally entrust to him for safe custody. He pays the current rate of interest which the Savings Banks or the Banks of his locality may pay and there is the moral obligation on the part of the depositor that he should not make a call at any inconvenient time.

There are some indigenous bankers who in the beginning of their career take much care to attract deposits but as soon as they have built up a safe and lucrative business, they no longer care to burden themselves with the onerous duty of attracting deposits and be in a position always to pay them at call. These people consider the deposits more a source of hindrance than help to them, so much so, it has been asserted that some of the indigenous bankers have willed down to their successors never to take up this irksome business of attracting deposits.

Again many of the indigenous bankers prefer to receive deposits from friends but not from business men. Full well do they know that money from business people is liable to sudden, frequent and untimely calls. So the indigenous banker does not make it a systematic policy on his part to *advertise* for deposits and *attract* the deposits by paying a stipulated rate of interest agreed to, at the beginning. Yet it would be

quite wrong to assert that he does not make use of others' deposits.

To a very great extent, he depends for money on the contents of his own purse and if he is in need of money he goes to a fellow banker who lends him money at 2 to 6% rate of interest. It is only in the last resort that they go to the Joint-Stock banks for money. Some of them view with hostility the rise and progress of these institutions and resent remarkably their competition with their business. But many of them have realised that the Joint-Stock banks are a source of great help to them. Though in one sense they act as rivals they confer inestimable advantages to the indigenous banker. They render unnecessary his keeping a large stock of silver rupees. They facilitate his remittances from place to place. It might pay him to deposit his idle cash and obtain the bankers, deposit rate of interest. They help him much by discounting the Hoondis. The endorsement of the indigenous banker makes the Hoondi doubly strong and such a bill of exchange is a perfectly ideal security for the Joint-Stock bank to discount. Thus the starting of more Joint-Stock banks and the extension of their branches in the interior of the country and at the different agricultural centres is a source of direct benefit to him. In many places the indigenous bankers are coming forward to

help this process of starting new banks and extending the branches of old and tried banking institutions.

The Banking Habit.

The absence of the "banking habit" is not solely due to the indifference and apathy of the indigenous banker towards the deposits of the people. Nor is the want of security in the past the sole cause of the absence of the banking habit.[1] The absence of savings banks or other institutions to store up savings, the frequent occurrence of famines and the poverty of the people must have had also retarded the growth of capital in India. The rise of banking institutions and the tolerable security resulting out of Pax Brittanica has given a stimulus to the growth of deposits in our country as shown by the following table.

Table showing the Growth of Deposits.

(Crores of Rupees) (Banking Blue Book, 1917, P. 10)

Year.	Presidency Banks.	Exchange Banks.	Joint stock Banks.	TOTAL.
1887	11	4	1	16
1890	18	7	2	27
1897	12	9	6	27
1907	31	19	14	64
1917	75	53	32	161

Another curious fact is that the "Indian people as a rule never draw cheques of any

[1] Deposit banking cannot flourish till a well secured paper currency exists which commands the confidence of the community.

kind on the deposits they give to the indigenous bankers. "It is a most extraordinary instance of the mutual distrust between man and man." [1]

The indigenous bankers that receive deposits now and then, in our country can be compared to the London Goldsmiths who have been acknowledged to be the true germs of modern banks in England. The London Goldsmiths took care of the money that was deposited with them and seeing that the whole of the deposits were never called up at once, began to trade with them. It has been said that the London Goldsmiths received deposits, collected the moneyed capital of the community into masses and on the credit they gradually obtained, issued notes that passed as money thus building up a machinery of credit that enlarged and extended the usefulness of the actual moneyed capital deposited with them. The indigenous bankers of India of the old times never did attempt to pursue such a policy. There was no issuing of notes of their own even before the right of note-issue was annexed by the Government of India in 1861.

The issuing and discounting of Hoondis.

It is a well known fact that all banking transactions in India are exclusively in the

[1] Sir R. Temple, Journal of the Institute of Bankers, Vol. I, 1881.

hands of the trading classes especially in the interior of the country. They exchange funds from place to place by the well known device of the 'Hoondi.' The word 'Hoondi' is a Persian word given to it by the Muhammadans. The word 'Hoondi' denotes a bill of exchange which generally runs for 41 days at Benares, Bombay, Mirzapur and Lucknow, 61 days at Fatteghar and Faruckabad, 121 days at Lahore, and Multan. The noticeable fact is that they are drawn for an odd number of days. It resembles a bill of exchange and is drawn payable on the 11th, 21st, 41st and 51st day of issue according to convenience. Some are drawn as sight bills and they are known as 'Darsani' bills. The first of the three copies of the bill of exchange is known as 'Khoka'; the second of the three copies of the bill of exchange is known as 'Penth'; the third of the bill of exchange is known as 'Parapenth.' The rate of discount is known as 'Hundiyana' and varies with the state of trade and the standing of the party. There are certain brokers especially the Multani Bankers of Bombay whose main line of business is to deal in 'Hoondis' and they obtain handsome profits amounting to lakhs. The 'Hoondi' changes hands like the bill of exchange. The dishonouring of a 'Hoondi' is very rare. The ordinary way of writing a 'Hoondi' in some parts of the country is by writing transversely across

the paper. It bears an impressed stamp and is drawn up in the vernacular 'Mahajani'[1] as it is usually styled.

Formerly when railway communications were not very much developed, the bankers used to earn much money from this source. But now some other means of conveyance of money, notably the splitting up of notes into two parts and sending each part separately, are resorted to.

Now the Government of India plays an important part in supplying currency to finance internal trade. The Government possesses numerous treasuries and sub-treasuries and currency agencies except in places where the Presidency Banks manage the treasuries. It keeps its cash balances here and when Rupees are wanted to finance jute harvests in Bengal, the cotton and ground-nut harvests of South India the Rupees are sent up-country. The peasants no doubt hoard some of them but the remaining come back again to Railway tills or Government Treasuries at headquarters of the Districts. The Government maintains local currency chests and free transfers are made from Treasury Balances to local currency chest while at the headquarters transfer is made from currency chest to Government cash balances. A merchant at Mymensingh can obtain money there from the currency

[1] The term 'Mahajan' also denotes the association of the indigenous Bankers.

chest by paying an equal amount in Calcutta into the currency Reserve. So the currency Reserve plays no small part in the distribution of circulating currency between the different parts of the country and obviates the necessity to remit coin. Again there are some treasuries in Madras and Burma which have considerable surpluses of income over expenditure and "supply bills" and "telegraphic transfers" are ordinarily sold on these by the Accountant General in places where there are deficit treasuries. Thus the Government plays a prominent part in providing ample facilities for the transfer of Rupees from place to place.

But an important part is played by the indigenous banker who finances to a great extent the moving and storing of crops required for local consumption and for export purposes and these loans are repaid to a considerable extent out of money obtained from banks.

The total amount of 'Hoondis' drawn depends on the amount of internal trade. Mr. E. M. Cook sometime Controller of Currency estimates that "the internal trade of India amounts to fifteen times that of the external trade." Mr. G. F. Shirras acting as a member of the Prices Enquiry Committee states that the number of "Hoondis" are on the increase but the "Hoondis" in the interior, specially Allahabad, Benares and Cawnpore, are becoming rarer and

rarer and the reason cited for this, is that there are available at present many cheaper and secure means of transferring money thus dispensing with the use of a "Hoondi."

Again the indigenous bankers usually gave drafts upon any places in the world *viz.*, Constantinople, upon the Levant, upon New York and upon San Francisco. These letters of credit were drawn after letters of advice were given so that they might be honoured on all occasions.

Discounting trader's bills.

The shroff or the indigenous banker acts also as the middleman between the Imperial Bank and the Joint-Stock Banks on one side and the vast trading community on the other. He buys the trader's bills at a high rate of discount for ready money and when he has not enough money to carry on his transactions he simply rediscounts these bills at the big Banks. The Imperial Bank considers this business safe because the shroff or private Banker's endorsement makes it doubly strong and as the shroff himself takes good care as to the nature of these bills there is no danger. Thus he is performing the function of a bill-broker of the London Money Market.[1] It has been said that keen

[1] The only difference consists in the fact that the bill brokers of the London Money Market are chiefly dependent for cash on the banks but the indigenous bankers of India are more independent of bank's help.

competition exists for this kind of business in Bombay and the profit arising out of the difference between the two rates of discount is necessarily small. But as in the London money market we do not meet with a uniform rate of discount for trade bills in our local markets.

In Bombay there are two sets of the indigenous Bankers, *viz.*, the Multani Bankers and the Marwari Bankers. The Multani Bankers do this discounting business and lend money and confine themselves to banking business proper while the Marwari Banker does other kinds of business also along with banking business. The Multani Bankers purchase the Hoondis drawn for 2 or 3 months and they are discounted generally at 6 to 9% rate of discount. The bills are rediscounted at the Imperial Bank and the difference between their discount rate and the Imperial Bank rate, constitutes the profit for them. The endorsement of the native banker is important and necessary and so the trader has to pay this price. Unless a bill of exchange contains two supporters (these bills being known as double name paper) the Imperial Bank cannot deal with them.

There is an Association of the Multani Bankers which regulates their discount rate in accordance with changes in the Imperial Bank's rate. There are about two hundred to two hundred and fifty members and a small committee of five

members; the most senior of these Bankers generally meet and regulate their discount rate. They hold their meetings on every Sunday and discuss common matters pertaining to all of them. This rediscounting of these trader's bills is done by the Imperial Bank and some of the big Joint-Stock Banks, specially the Central Bank of India and the Bank of India. The Exchange Banks do not indulge in the business to any extent In the busy season their hands are fully occupied with the financing of foreign trade of India and the exchange business. This precludes them from competing with the Indian Joint-Stock Banks in the matter of discounts. The high degree of integrity which exists among this community is a noticeable feature and it is a pity the Indian Joint-Stock Banks do not emulate this noble example.

Other functions than Banking.

It has been written already that the Banker *quâ* Banker does not exist in India. The private banker very generally combines business with trade or holds land or does commission business and very often in order to get rich quick he speculates heavily in all kinds of produce. He does mortgaging business which often involves him in litigation. The indigenous banker, specially the shroff, speculates in Government

paper during the off season but very rarely holds it or lends money on it. Some of the most desperate gamblers in the market of speculation are to be found among the native bankers of Western India (Sir Richard Temple). Sir D. E. Wacha has given a beautiful description of speculation in Bombay during the years 1864-65 in his work on Bombay Municipal Government (pp. 21-22).

At Cawnpore[1] the native bankers trade in money, cotton, grain, flour and other articles. Some of them manage the sugar works and the flour mills.

At Delhi the indigenous banker finances the goldsmiths and other skilled workers. The Banker of the East adheres to the practices of the guild that are comparatively neglected by the great money-lenders of Europe and counts jewels among his means of trade and not as objects to be kept in his safe. He makes systematic advances to the goldsmiths and sells the finished product himself. He tries to efface the maker of the goods, he sells and poses as

[1] There is a Banker's Association consisting of all the indigenous bankers which takes upon itself the duty of settling commercial disputes, regulating the discount rate, and settling monetary claims. The one outstanding feature of the Association is the spirit of harmony and common understanding that prevails amongst its members. These associations are the modern counterparts of what Dr. R. Mukerjee has described as Guilds. The Banker's guilds existed in the past and some specimens of these guilds might still be seen in Jeypore, Multan and Marwar, the original home of these indigenous Bankers.

the actual producer. Thus he appears to be both a jeweller and banker.

In Bombay the Marwari Bankers deal with cotton, seeds and shares and do much speculation in the value of these things.

In villages also, the rural banker plays a quadruple role. He is the purchaser of rural produce, the local agent of the European mercantile firms, the village shop-keeper and money-lender.

Thus the general practice is that the indigenous banker rarely does pure banking business alone. Banking, agency, commission, brokerage and middleman's profits are some of the various avenues for obtaining money.

One of the instances which prove the trading instincts of the Marwari class is beautifully illustrated in the country of Mysore. In Mysore the Marwari is likened to a Jew and even to a 'Jap' and the comparison holds good in many points. Like the Jew, the Marwari is a great stickler for interest, he lends money generally for three months and calculates interest, at an exorbitant rate and pays the sum promised minus one year's interest beforehand. As soon as the prescribed period is over he rarely extends days of grace and goes to the law court for prompt decree and settlement. He never grows sick of litigation. In many moffusil places local contractors and merchants are first enticed by

tempting offers and subsequent prosecutions ruin them. He never lets go the opportunity which affords him the chance to settle securely and here he affords a striking resemblance to the 'Jap.' The Jap is now trying to establish himself in the cotton industry in Upper and the Southern India. The Jap has purchased the Lahore Cotton Mills, one of Mr Harikrishen Lal's concerns, and he is trying to establish himself in the Tinnevelly Cotton area. Even the Marwari women appear to share these trade instincts along with their males as a sort of peculiar heritage. They do not share in that passionate longing for jewellery as the other Indian women possess.

The Bankers' Associations.

In all the big commercial centres of modern India where a number of these indigenous bankers congregate and transact business, they form themselves into an Association to protect their mutual interests. They seem to be so busy with their own pursuits that they have not time enough to frequent the law courts for the settlement of disputes. They submit them to their own arbitration courts and their decisions are virtually carried out.

Dr. Radhakamal Mukherjee says that in many of the big cities there used to be guilds

of Bankers which decided not only social quarrels but also financial claims. Sometimes the oldest of these Bankers were allowed to arbitrate on commercial quarrels, and their voice was taken as final and the disobeyal of their decision would mean nothing short of a social ostracism. The money market would be closed against him. To be re-admitted into the fold of the market, the culprit had to perform the well-known *prayaschit* ceremony or penance and feed a hundred Brahmins. He says that " most of the important cities and trade centres have their indigenous Banking associations and *Panchayats* with the particular circles of guild jurisdiction which embrace all the merchants and Bankers of the region and the control of such guilds their headmen exercise in the direction of fixing the rates of exchanging and discount and the rate of interest, settling commercial disputes, buying fees in certain transactions and spending the proceeds on humane and religious objects has contributed to a high degree of integrity and mutual trust among the classes of people and the development of commercial law in the country on a strictly democratic and ethical basis."

The Native Market Rate.

So far no attempt has been made to unravel the complicated nature of relationship that exists between the native market rate (shroff's discount

rate) and the European market rate. No separate set of figures has ever been constructed showing how readily and to what extent money flows from one market to another. Mr. J.M. Keynes opines that the native market is ultimately dependent for its funds on the European market. He also says that the rates of interest in both markets must move up and down in one and the same manner when money is required during the busy season. He explains the difference that may be noticed between the two market rates by the fact that the kind of business undertaken by them is different and that it also depends on the nature of security of the business transacted. During the last decade of the nineteenth century, there existed no intimate relation between the two markets. This has been proved by the letter of Mr. J. H. Sleigh, Secretary and Treasurer of the Bank of Bombay, submitted to the Fowler's Commission of 1898:

"During the last export season shroff's 60 days' sight bills were not obtainable over 8% discount. This was the rate ruling in the bazars both in Bombay and Calcutta and that too while the Exchange Banks were greedy to receive fixed deposit for short periods at 9%, 10% and 11% per annum and while the Presidency Banks were straining to meet the demands for loans at 12 or 13% per annum. The same

peculiarity shows itself over and over again during periods of financial pressure and even at the present moment (November 1898) while money is not by any means tight there exists a difference of about 2% between the bazar and the Presidency Bank rates. I have even found that when the official rate rose abnormally high the rate in the native market did not respond to the full extent but generally stopped at 7 or 8% though the Presidency Bank rate might rise to 10 to 12%."

This statement has been followed by an explanation showing the nature of the shroff's work, how he buys the traders' hoondis and how he re-discounts them when the Imperial Bank's rate is low and discontinues so doing when the rate rises above 6%.

Whether the conditions of 1898 described above were quite abnormal as suggested by Mr. J. M. Keynes or whether the same facts have been repeated every year there is no official means of ascertaining. The wide difference between the two rates would disappear as competition between them becomes keen and no doubt the rates charged by them cannot but reflect the nature of different risks undertaken by them. The native shroff rarely discounts foreign bills.[1] He confines his attention solely to 'hoondis' of

[1] They take up foreign bills also if "it suits their book" says Mr. W. F. Spalding in his Eastern Exchange, Currency and Finance

Indian traders and as he knows full well the commercial standing of the traders he undertakes little risk in discounting them. This fact must generally account for the difference between the two rates. The Indian bank rates are influenced largely by the fact that they have to finance produce for export to foreign markets and for buying raw materials for the Indian industries. As has been said already shroff's money finances internal movements of crop and export and money ultimately comes from the banks to repay the shroff's advances. Shroff's rate is sometimes considerably easy and on account of their financial strength they underquote the bank-rate to the extent of 1 or 2% in the slack season and a great part of the financing of the internal trade is done by him. Thus there is no reason why the native discount rate should move in close consonance and ultimately copy either the upward or downward movement of the Bank rates but all depends on the stringency of the money-market and the demand for money.

The Present Position of the Indigenous Banker.

Thanks to the British rule, a well-administered government has given perfect security and with it the flow of foreign Capital has taken place

into India. Banking business conducted on the joint-stock principle was first transacted in India by the Agency Houses in the early part of the nineteenth century and many banks have been started on the model of the European Banks. These have contributed to a great extent to minimise the importance and diminish the role played by the indigenous banker. The Co-operative credit societies have ousted him from this favoured post but still the village Mahajan or the rural banker holds his own ground though in a much less restricted sphere. The co-operative banks lend only for productive purposes and the impecunious man who has to borrow for social functions has been left to his mercy. Again the rate of interest has been drastically cut short and this is telling very seriously on the rural bankers. The former 25% has now been reduced to 12 or 15%. The urban bankers have been unable to obtain even the little deposits that they used to attract before, due to the opening of new banks or branches of the existing banks. Their reluctance to finance manufacturing concerns which are rapidly springing up must also go against them. The individual proprietary basis on which private banking has hitherto been conducted must give place to banks on joint-stock basis. What India wants is not bankers of this type but banks.

Defects of the Indigenous Bankers.

The indigenous Bankers have done very little to manufacture credit money. Their bills of Exchange, *i.e.*, "Hoondis" are merely a species of mercantile exchange. They have never manufactured credit by the issue of notes. They have never financed manufactures on a large scale.

If the essence of banking business consists chiefly in issuing credit and dealing in credit operations as shown by the quotations so profusely quoted at the beginning of the chapter, the indigenous bankers of India have done very little as regards the development of credit beyond issuing letters of credit from one place to another. Deposit-holding and the increase of notes are alike credit operations and the indigenous banker has left both the sources of credit untapped.

Finally one has to observe the lot of direct and indirect services that a bank does to the general community. Some of the most direct services performed by the Commercial Banks are the provision of banking facilities for those who require them and the extension of these banking facilities by a network of branches and they act as financial secretaries to their customers. The indirect services are the providing of a sound and stable credit by enabling the

financial machinery of the country to run smoothly and by directing the country's capital into the most profitable channels. The indigenous banker of India when weighed according to this standard will be found wanting. It can be asserted without hesitation that with the exception of the 'Hundi' business and the issuing of drafts on foreign centres of trade no other transaction of his benefits the community. Of course he is the only thrifty man in the community and the value of his example might be taken as the one other service he is giving to the public.

Again, our indigenous banker is not a scientific Banker. A 'scientific banker should forbid speculation, refuse to support overtrading or overinvestment. The indigenous banker violates all these functions. Not only is he not a scientific banker as understood in the modern sense of the term but he does not do some of the elementary duties of a modern banker. As Dunbar has said "to be a Bank now at this present day an establishment must carry on the purchase of rights to demand money in the future on securities and it must use in some form or other its own engagements for the payment of money upon demand."

The supreme role of the Western banker in aiding production and stimulating the capabilities of the "Captains" of industries by their timely

monetary help is not a distinguishing feature in the case of the indigenous banker in India. The Western banker does not create Capital out of nothing but the control of Capital is concentrated at the Bank and the banker by means of loans and advances in one form or other enables the persons in whom he has confidence to obtain the temporary use of capital. The banker is under the strongest inducement to see that Capital passes into the hands of those persons who are able to use it to the best advantage. The person who can use Capital to the greatest advantage will be anxious to obtain it and will be in a position to pay for the facilities afforded him and if the Banker makes an advance to a person who cannot use Capital profitably he runs the risk of loss. The indigenous Banker of India does not shrink from financing industries on industrial security provided he is satisfied as to the fact that the business is carried on, on sound lines. But, on the whole, there is no facilitating of the profitable employment of capital on his part.

As Bagehot remarks that "the Rothschilds are great Capitalists but not Bankers" one must repeat the dictum that these indigenous Bankers are great Capitalists but not Bankers.

'A nation gets the Banking system it deserves' and it is a matter of sincere regret that India of the past rent by internecine

warfare and political turmoil could give no free scope to the growth and development of real and legitimate banking business just as the Western countries have developed.

It has been written already that the soundness and efficiency of a banking system is tested by three crucial tests namely stability, adaptability and initiative. By stability is meant firmness and security from all outside dangers. When credit is rudely shaken the banking system should possess not only inherent strength but capacity to restore public confidence. This quality is the *sine quâ non* of all successful banking business. By adaptability is understood the power to adjust itself to new conditions and when trade and industry are making progressive strides the banking system should be able to extend its scope of business and undertake new functions to suit the changed conditions of social and industrial life. By initiative is meant the quality of creating new developments.

If the business of the indigenous banker of India is judged according to this standard it will be found defective. The indigenous banking system possesses in a remarkable degree the quality of stability. The conservative lines on which the business is conducted, the close business knowledge of the several customers and their respective standing in the social community

and the cautious way in which loans are granted all conduce to stability and so long as the indigenous banker pursues the principles laid down by his ancestors there is no danger to him. But this indigenous banking system (if it is entitled to be called a banking system in the modern sense of the term) is woefully wanting in adaptability and initiative.

Suggestions for improving their system.

It is a well-known fact that modern economic development is so rapid that to-day's aims and methods become antiquated very soon and the indigenous banking system which is still conducted on time-honoured and stereotyped lines has not so far displayed any signs of adaptability. It has been the cry in India ever since industries began to be organised on joint-stock principle of management, that more capital should be accumulated. Thus it became clear that the first duty of the indigenous Banking system should have been to mobilise the money-power of the country and provide the needed credit for the industrial machine to run in perfect order.

But the indigenous bankers have never devised any systematic means to stimulate thrift and encourage the savings habit on the part of the people. They have not systematically *attracted* deposits. Secondly they have not acted

as the middlemen between the savers of capital and the enterpreneurs who have needed the capital. It would be a gross mistake to assert that these indigenous bankers have not financed industries but there is no systematic encouragement of industries on their part. The rate of interest is their sole concern and so long as this can be procured without endangering the original sum, the indigenous banker will lend money to productive or unproductive purposes. In Western countries it is said : " Banking accommodation stimulates production and increases consumption." In the case of the indigenous banker of India, the loan might be given for unproductive purposes and the result is sheer economic waste. Not all his loans will end in this manner but a part of this capital is liable to destruction. Whether a profitable and productive use is to be made of the capital that is loaned is not the question that the indigenous Banker asks. His is solely a selfish and sordid motive, namely, that of interest. So long as adequate security is forthcoming capital is lent at a high rate of interest and if it is spent on unproductive functions, there is destruction of capital. Up till now no signs are visible that these bankers are going to call for deposits. This they will not do because it involves risk and a crisis may ensue if they mismanage the funds allotted to them or lock them up in unrealisable assets. In as much as they do not

touch other's money there is no crisis, no nightmare of a run troubling them. But it is high time that they should wake up. They should do their best in promoting the new-born industrial activity that is spreading over our country. The people know these Bankers intimately and they will not be afraid to entrust them with their savings. The machinery of the Joint-Stock Bank as regards deposits is cumbrous and little understood by the people. So they will certainly prefer the indigenous banker so familiar to them and so near to their doors to the Joint-Stock Banks which have to be managed by outsiders or foreigners. In case there exists no Co-operative Bank in a village the next best thing is to induce the village Mahajan to take up this policy of attracting deposits and pay for them. No doubt this is irksome to him but by following such a policy he will ensure the success of many industries and obtain much reputation for facilitating our onward industrial march. Next to the Co-operative Bank, he will be the most successful agent that can succeed in gradually weaning the people from their hoarding habit or converting their savings into ornaments.

The indigenous banker is lacking in initiative. He has not taken the lead in new lines of development nor has he opened any fresh avenues of expansion. The successful development of our cottage industries can be easily taken up

by these monied people. The village Mahajan finances the agriculturist and agriculture is a half-time occupation dependent mainly on monsoon and favourable climatic conditions. Granted that these are favourable there is employment for the Mahajan's capital and as soon as the harvest season is over the Mahajan obtains the capital lent, provided the ryot is a prosperous one and it has to lie idle in his hands during the slack season when there is no demand for it.[1] This money can be profitably utilised in encouraging local industrial talent and as the Mahajan knows fully the success or otherwise of such an attempt on his part, he ought to make such an attempt. Such legitimate promotion of cottage industries on his part but not sweating and exploiting as is the case now would not only earn him a fair return of interest on his capital all round the year but it will enable the struggling agriculturists in many instances to eke out their own livelihood and increase their famine-resisting capacity.

The indigenous banker of India has not realised the higher duty of a bank. The primary duty of a bank is to earn dividends for the shareholders. The next higher duty is to help the trade and industry of the country and to

[1] The Mahajan must try to make them capitalist producers but not his own serfs as it has often been the case. In agriculture he has made the ryot not a capitalistic producer and cultivator but his own serf. The same should not be his policy towards industry.

stabilise the financial machinery of the country and provide sound and stable credit for the millions of its inhabitants. The indigenous banker of India is not fired with the zeal and enthusiasm to realise this high ideal. He seems to be careful of his own materialistic aims and pursuits. Many of these indigenous bankers are hidebound in conservatism. They lack driving power. They display no carefully laid down policy of adventure. They have prudence no doubt but they should be alive to all consideration of progress.

Whatever might be their shortcomings and whatever their faults have been and are, it must not be denied that they are rendering signal service to agriculture and internal trade. It behoves them to set aright and adjust their system to the new and altered conditions of our industrial life and they should realise the higher aims and loftier ideals of a banking system and realising act up to them so that they may deserve fully the appellation of 'Bankers' which is now applied rather loosely to all the big capitalists and money-lenders of our country.

Other quasi-banking institutions.

The indigenous class of institutions, *viz.*, "Kuthe-chittu" and the 'nidhis' of Madras have been performing money-lending business

from a long time since. In the 'Kuthe-chitte' system a number of men unite to put in some specified sums for a specified period and the whole sum is drawn in a lot and the winning lot takes the whole sum. Next month a similar lot is drawn and the previous winner is excluded. Thus this process is continued till all the subscribers have received their lots once. The sum is repaid in easily payable monthly instalments. "The Nidhis" originated in the year 1850. The etymological meaning of the word 'nidhi' is treasure. These are associations for mutual credit. The main object with which they were started was to facilitate savings; relieve members from old debts and grant loans for all purposes on good security. Outsiders were also given loans at a higher rate of interest. Now there are two kinds of 'nidhis', the Permanent and Temporary.[1] Although these societies started at about the same time as the Schulze Delitzech and Raiffeisin Banks they had no such brilliant career as the latter. This is partly due to the fact that frauds were committed at the early stages of their existence and want of supervision also must have had its effect. The method of monthly instalments and the paying of them in clock-like regularity requires some education and thrift on the part of the share-

[1] Vide Statistical Tables relating To Banks in India, 1917 Publication.

holders and the 'nidhi' system, consequently proved unsuitable to the agricultural population. In spite of these defects these nidhis are still flourishing, says the Banking Blue-book (1917), but no statistics of their number, capital and shareholders have been compiled.

Sir Frederick Nicholson has pointed out the good features of the 'nidhi' system thus. "They are the introduction of co-operative principles and habits, the stimulation of thrift and providence, the inculcation of business habits and punctuality, the cheapening of credit, the insuring, so long as rules are observed, that the members will if non-borrowers, get back their money with interest and if borrowers they are secure from all annoyance so long as they pay their dues punctually, business is extended by cheapening loans and not by entrapping the unwary and ignorant, profits are to be sought by the development of cheap credit and not by squeezing the individual debtor—Small savings are cared for and petty capital retained in the neighbourhood."[1]

The 'Nidhi' system is a good institution for encouraging thrift but so long as they are managed well they work well but owing to growth or indifference the management may fall into bad hands and the system has been perfected

[1] Sir F. Nicholson "Report on Agricultural Banks" Madras Loan Societies.

more or less and is not capable of any further extension. Besides these are mere money-lending societies because they are lacking the fundamental conception of a banking institution. "There is no concentration of idle hoards for productive purposes" as Sir Frederick Nicholson has put it. The co-operative credit societies fulfil their duties more admirably and there should be an extension of these institutions. The 'nidhis' have already fallen to the background and they are destined to be blotted out in no short time by the co-operative credit societies.

CHAPTER VI.

A CENTRAL BANK.

The proposal for the establishing of a great banking institution [1] which is more or less to be a sort of quasi-public institution can be traced to a very distant date. It was in November 1836 says Sir James Brunyate in his Account of the Presidency Banks "that a body of merchants interested in the East Indies approached the Court of Directors of the East India Company with the proposal for a great banking establishment for British India." The arguments for the establishing of such a Bank were that "such a Bank would facilitate the employment in India of the redundant capital of England, stabilise the monetary system and be of great use for the receipt of revenue and for the remittance to England of the money required for the Home charges." This proposal was referred to the Bank of Bengal for consideration and it opined that it was capable of doing the aforesaid business without having recourse to England. The proposal ended in smoke and nothing tangible came out of it.

[1] Parliamentary papers relating to Banks published in 1868-70.

The second mention of such a great banking establishment was made by the Hon'ble Mr. James Wilson,[1] the first finance minister in his speech advocating the establishment of state managed paper currency in India in the year 1859. He said that "proposals have been made for the purpose of establishing upon a large scale and with an adequate capital a national Banking establishment capable of gradually embracing the great banking operations in India and of extending its branches to the interior trading cities as opportunity might offer." That there is a growing want for such an institution and a rapidly increasing field for its operations no one can doubt. The "Hon'ble Mr. Samuel Laing the next finance minister, also veiwed the proposal favourably.

The third mention of such an attempt to have a Central Bank was in March 1867 when the old Bank of Bombay failed and the Bank of Bengal proposed an amalgamation of three Presidency Banks into a Central Bank for India.[2] The Bank of Bombay's shareholders opposed the suggestion and the Bank of Bengal withdrew. Mr. G. Dickson, the Secretary of the Bank of Bengal originated the scheme and brought it to the notice of the Government.

[1] Parliamentary papers relating to Paper Currency in India 1861.

[2] It was proposed to start with 10 crores of authorised capital, of which 5 crores were to be paid up capital.

But the Viceroy of the day condemned the proposal on the grounds that "the influence of such an institution may overshadow that of the Government itself"; "that such an intsitution would be difficult to manage" and "that Madras and Bombay would prefer separate institutions to look after their interests."

From the year 1899 to 1901, measures for the establishment of a Central Bank were in the air and there was much correspondence on that subject between the Secretary of State for India and the Government of India. This question was keenly discussed by many of the witnesses who appeared before the Fowler's Commission. They were of opinion that such an establishment would improve matters to a great extent. Mr. Alfred Rothscild elaborated a scheme of his own for a State Bank that is to arise out of the Presidency Banks. Sir Edward Hambro, one of the member'sof the Fowler's Commission wrote a separate memorandum urging the establishment of a Central Bank modelled on the Bank of France. The Secretary of State for India referred the proposal to the Government of India. But Sir Edward Law [1] the then finance minister smoothered the magnificent proposal. He wrote that "there is under the present conditions no real

[1] Sir Edward Law's Minute on Central Bank, Jan. 31.1901. (Papers relating to state. Bank or Central Bank printed in 1913 from the Gazette of India, 1899-1901 publications).

necessity for the foundation of such a Bank in the interests of trade and that although the existence of a strong Bank with abundant resources would be useful in connection with possible exchange difficulties and would from other points of view be convenient to Government, the direct cost of the establishment would be greater than I venture to recommend for acceptance." "I am convinced that it is unnecessary to establish a Central Bank for the assistance of trade, and unprofitable as regards the provision of assistance in connection with possible exchange difficulties, but still, if practical difficulties could be overcome, it would be distinctly admissible to establish such a Bank so as to relieve the Government of present heavy responsibilities and to secure the advantages arising from the control of the banking system of the country by a solid powerful Central institution." "The difficulty of securing a thoroughly suitable Board of Directors having the necessary leisure to devote to the business is very great. There are practical diffioul ties in the way of amalgamation arising out of provincial and personal jealousies."

The Secretary of State for India thought the idea of a Central Bank for India, was a good one but that time was inopportune and so the proposal was laid aside for a while.

It was in the year 1911 that Lord Crewe the Secretary of State for India invited the late Sir Lionel Abrahams of the India Office to draw up a memorandum on the subject of a Central Bank for India. Sir Lionel's view was that the following advantages would accrue on the establishment of a Central Bank. "The depositing in this institution of the whole or part of the money kept under existing conditions in the District and Reserve Treasuries would place plenty of funds at the disposal of trade and industry. The substitution of the drafts on the London Office of the State Bank for Council Bills, the borrowing powers for the Government of India both in India and in England, the pecuniary advantages for Government" were some of the advantages commented on by Sir Lionel. But he included in his objections to the State Bank scheme "the diminution of importance and responsibility of the Banks of Madras and Bombay and technical difficulties between London and India".[1] This memorandum with the concurrence of the Secretary of State for India, was placed before the Chamberlain Commission.

The Chamberlain Commission found it difficult to examine the 'State or Central Bank' question owing to the absence of anything in the nature of

[1] Sir Lionel Abrahams memorandum, Appendix No. XIV Interim Report of the Chamberlain Commission.

concrete proposals and even of any general agreement as to what was implied by the phrase "State or Central Bank". It requested Mr. Keynes and Sir Earnest Cable to draw up a memorandum on this question. Mr. Keynes and Sir Earnest Cable along with the help of Lord Inchcape, wrote an elaborate scheme [1] and this report was more optimistic about the working of the State Bank than Sir Lionel's. Mr. J. M. Keynes pointed out the existing defects of the banking machinery and the money market and according to bind the only way to strengthen the present position was to have a State Bank. Mr. J. M. Keynes also stated the numerous objections to the scheme but he disposed them of with easy and effective reasoning. The Chamberlain Commission recommended the appointment of a body of select experts to consider this question. But during the period of the war the question was shelved, and the Hon. Mr. B. N. Sarma's resolution on the State Bank in the Imperial Legislative Council in September 1919 gave scope for the discussion of the question and the Hon. Mr. Howard announced that an Imperial Bank is to be created out of an amalgamation of the Presidency Banks. Thus

[1] Mr. Keynes' Memorandum on 'State Bank for India' is the most detailed, most exhaustive and most conclusive one ever written on the subject and all later writers have largely borrowed from this despatch.

the question of a State Bank scheme has been given up and in its place a Central Bank arising out of the three Presidency Banks is to be created with permission to use the funds of the Government Reserve Treasuries.

CHAPTER VII.

THE IMPERIAL BANK OF INDIA.[1]

The War has no doubt brought to prominence many economic truths while it has also disproved some of the pet theories of economists. It has left us quite a legacy of many difficulties but it has solved many important things one of which is the vexed problem of 'a Central Bank for India.' From the year 1836 right up to 1919 this question has been mooted more than once but has never been brought to the field of practicability and the region of practical politics due to the apathy of the Government of India. But the War brought home to all the parties concerned, the utility of a Central banking institution and all parties are eager to have a 'Central Bank' with the Government of India having some close relations with it.

Constitution.

The present Imperial Bank of India arose out of an amalgamation of the three Presidency Banks of Bengal, Bombay and Madras.

[1] Readers of this Chapter should also refer to the author's article "Imperial Bank Scheme" published in the Indian Review, March, 1921.

The total authorised Capital with the Reserve Fund is Rs.15,00,00,000 of which the authorised share Capital consists of 225,000 shares of 500 Rs. each representing Rs.11,25,00,000 and the Reserve Fund Rs.3,75,00,000.[1]

To guard the regional interests and to provide ample freedom in banking matters, the existing local boards of Calcutta, Bombay and Madras have been retained. A Central Board is created consisting of a General Manager or two Managers in the first instance (He is to be appointed by the Government of India on the nomination of the Central Board for a period of 5 years), the Controller of Currency (he will be an *ex-officio* member of the Board) and the President and Vice-President of each local Board, the Secretary and Treasurer of each local Board (these will have no voting power) and four non-official members to be appointed by the Government to represent the taxpayers' interest. The Central Board is created to settle disputes between the different local Boards (in case any should arise), to look after the discount policy, to deal with matters of general policy, to determine the distribution of funds, to fix the Bank rate and to publish the Bank's weekly statements. The Central Board is to meet once

[1] The older institutions had an aggregate of 375 lakhs of capital and 380 lakhs of Reserve.

in a quarter of an year at least, alternatively at Bombay and Calcutta but a managing board is created which will meet more often and transact business. Full provision has been made for the exercising of adequate control by the Government as the Controller of Currency has power to require the Board to hold up action on any matter which he might consider to be of vital importance as affecting either the financial policy of the Government or the safety of its cash balances.

The Imperial Bank has a branch in London to transact such of the business as may be entrusted to it by the Secretary of State for India, to rediscount Bills of Exchange for the Exchange Banks and to represent Indian commercial interests in London. It is not to take up foreign exchange business and compete with the Exchange Banks.

The Imperial Bank has to increase its branches by a hundred more within a period of five years, and the Government has the option of nominating 25 of them in places they may select.

The Imperial Bank has been given the free use of the Government Reserve Treasury funds.

The Imperial Bank retains the management of the Public Debt work.

The Imperial Bank has to do the same business which the Presidency Banks have been transacting but certain of the restrictions have

been modified but the general nature of the restrictions have in no way been altered so as to permit unsafe business to be conducted.

Causes for amalgamation.

Though not the first Banking amalgamation in our country, yet it is the more important one fraught with far-reaching consequences and pregnant with many possibilities. This amalgamation is quite a 'spontaneous thing' and is the result of a 'natural banking evloution' in our country and as such it is bound to have a glorious future before it. Had it been a thing forced by designing and scheming outside powers, one should be more sceptical of its beneficient influences and usefulness.

The causes that have brought about this amalgamation are four in number :—

(1) The War has amply demonstrated the weak spots in our banking armour and the results of a lack of co-ordinated policy on the part of the various banks. Co-operation and co-ordination of policy on the part of the Presidency Banks for a brief period of three years in order to finance the requirements of war have taught them the advantages of such a policy and the present amalgamation is but a translation of that desire and they have realised full well that there can be no true and effective co-operation without any formal amalgamation.

(2) Amalgamation is "synonymous with strength" and if the Presidency Banks are to retain the paramount influence which they have so long been wielding, they must combine and if any banking amalgamation[1] of the London Money Market were to obtain footing here the individual and isolated position of the three Presidency Banks would mean 'weakness' and 'inability' to compete effectively with such an institution.

(3) It has been pointed out in the First Chapter that India stands in need of more loanable money and the woeful want of banking facilities in the interior of the country is a well-known thing. The amalgamation proposes to raise additional Capital and undertakes the extension of banking facilities to the interior of the country. It likewise aims at promoting the healthy development of banking in our country.

(4) Some of the Exchange Banks are not British concerns. There is a great danger that Japanese and American financial concerns may obtain undue influence and predominence, in the monetary affairs of our country if the Presidency Banks remain isolated as before. A closer union of Indian and British interests is necessary for the maintaining of the British Empire and as such

[1] There was already such a proposal, the Lloyd's Bank wanted to amalgamate with the National Bank of India but the Secretary of State for India vetoed the measure.

there should be an amalgamated Bank which should have access to London and be represented there just like the Dominion Banks of our Empire.

Advantages.

The *General public* will reap some of the following advantages. There is the 'popularising of banking buisness with these people. The opening of branches of this single and unified bank with some close connections with the Government will inspire confidence among the people as to the stability of the institution and many people will be too willing to avail themseves of the opportunity to deposit their savings. It is an undoubted fact that confidence is an essential thing that conduces to sound and prosperous banking. "Confidence upholds and distrust paralyses" says the adage and in no business of life is it more true than in the banking business. It will succeed in implanting the 'banking habit' gradually and as the Government despatch[1] says though there may be, "no sudden miracle brought about by the creation of a banking habit, yet it is an indispensable preliminary for making the people believe in the utility of the banking institutions."

[1] Government despatch on the Imperial Bank Proposal to the Secretary of State for India.

The staffing of the innumerable branches of the Imperial Bank requires men trained in modern methods of banking and this stimulates very considerably the training and employment of Indians as bankers. Thus a 'banking career'[1] is to be created shortly which may afford relief to the already overcrowded professions of the present day. More of these sound and trained bankers may mean an improvement in the banking standard of our country.

The advantages to the *customers* of the Imperial Bank will also be of a weighty character. With the fuller utilisation of the Government balances and a more elastic use of them and with more increased working capital, the Imperial Bank can reduce the present high discount rates prevailing during the busy season. A steady, uniform and cheapened rate will be the result and it will be a great stimulus to agriculture and commerce in our country. A proper and wise distribution of capital will also be another inestimable blessing. The opening of a branch office in London will lead to a closer touch with the London money market which is the well-known hub of international commerce. It may lead to obtaining of trustworthy information regarding concerns in Great Britain interested in Indian trading. Again sterling loans can be

[1] A carefully constructed apprentice scheme has been drawn up by the Imperial Bank.

arranged for local bodies and investments made in British securities and the Imperial Bank will realise the interest on them for its constituents. A largely increased number of branches and the ability to discount more hundis and trader's bills means that the Imperial Bank will be in a position to render yoeman's service in irrigating the channels of internal trade.

The *Government of India* stands to gain much by the establishment of such a bank. Millions of rupees locked up in the Reserve Treasuries during the busy season, usually caused a tightness and stringency in the money market and the only perfect remedy is to abolish the Reserve Treasuries and such a step is now accomplished. The Imperial Bank will transform these immense sums of money from mere warehouse merchandise into an active banking power. The Imperial Bank will prevent the hoarding of public money in the Reserve Treasuries by acting as its custodian and it will obviate the periodic appeals of the money market to the Reserve Treasuries of the Government for relief. This means that the Imperial Bank will be responsible for the movement of funds in India and also of making them available to the Government whenever and wherever they are required. This will lead to opening of more branches and due provision has been made for such branches. The Reserve Treasuries hitherto

acted as a sort of buffer and the first shock was received by them and not by the Government balances deposited at the Presidency Banks and when these are to be abolished the Imperial Bank should prepare itself to receive such shocks in future and this necessitates the keeping of a higher proportion of cash to liabilities than now so as to meet all sudden and large demands but the mere concentration and pooling of Reserves will have its own advantages which lead to efficiency and economy of the Reserves and adequate business accommodation.

The decentralisation of the Publc Debt work which is now concentrated in the Calcutta office will improve the administration of the Public Debt and will encourage small investors of the interior to go in far more frequently for Government securities than is the case now.

The management of the balances of the Secretary of State for India and his remittance business (council draft) and the other banking work he performs, may ultimately be handed over to the Imperial Bank's branch office in London and this will save him a lot of carping criticism by the unenlightened public. No body will cavil at the banking work done by a banker. As Mr. G. F. Shirras has said "work done by bankers would not be subjected to perpetual nd carping criticism as is that of a close bure-

aucratic corporation. Sir James Meston has said "It would relieve the officers of Government who very often have neither the training, nor experience necessary for this sort of work, of obligations and the responsibilities for which they themselves must recognise that they are not fully equipped." It will also enable the Government of India to float loans at a low rate of interest during summer months.

The handing over of the Paper Currency Reserve (as it is contemplated to be done) and the Reserve Treasuries and these coupled with the Bank's own Reserve will lead to the fusion of the several Reserves that exist now and the result is a concentration of the Reserves. Then alone can an economical use of coin be made and efficiency, economy and adequate business accommodation are some of the advantages of a concentrated "one Reserve System."

The advantages to the *Imperial Bank* itself are no less marked. It enjoys the proud and privileged position of a banker's Bank. It is bound to become a national institution. No European monopoly is aimed at. Both the Indian Directors and European Directors must co-operate and bring about the success of the Bank. Neither a purely European Banking institution nor a purely Indian one however successfully it may conduct its business, has

any bright future before it and it can never shoulder such immense burden as the extension of banking facilities to the interior of the country. A united stand of both European and Indian people is essential and such a thing is brought about by the Imperial Bank and hence there is the promise of a glorious future before it. The Imperial Bank on account of its immense resources can successfully play the part of a banker's Bank. It will be able to bear the burden and come to the rescue of banks which may occasionally come to trouble. It can become a sanctuary to the struggling banks. By virtue of its capital and massive size, it will soon obtain controlling influence and be the responsible leader in times of emergency. The successful working of the Imperial Bank will convey to the minds of the people a sense of ease and security hitherto wanting in periods of stress and will make the Imperial Bank a bulwark of public confidence. Access to the London Money Market has been granted and some of the restrictions are relaxed.

The advantages to the *Joint Stock Banks* have also to be reckoned. The Imperial Bank of India can afford to be their "guide, friend, and philosopher" in future. It can look after the banking policy as a whole. It can rediscount their bills and satisfy their wants for more credit currency. Co-operation and co-ordination of

the several banking institutions will lead to better resistance in the time of a crisis and a solid and united front under the able leadership of the Imperial Bank of India will be an effective protection against foreign influences. The Indian Banking system will then be welded into a co-ordinated whole. It may probably lessen the profits of other banks holding large reserve deposits, but in the security from the operations of the Imperial Bank and in greater stability of business, greater activity and mobility of reserves administered by it, the banks would have protection that would be more than a set-off to any diminution of profits. The Imperial Bank will be the 'shepherd' guiding the 'flock of sheep.'

Coming to the *Exchange Banks*, it can be confidently predicted that they too will reap their own share in common prosperity. There is no competition with their exchange business. Their bills are rediscounted at London thereby enabling them to send back money to India quickly and be in a position to make further purchases of export bills in India.

The *Co-operative* and *Industrial Banks* will also gain much by the starting of the Imperial Bank. The duty of rediscounting agricultural and industrial paper will be taken up by this bank and thus it is to act as an apex bank rediscounting the paper of these smaller

banks. In short it can become the central rediscounting agency.

Such are the advantages that promise to flow out of the successful working of the Imperial Bank. But the Imperial Bank has to realise its duties. It has to bear in mind that "a Central Bank is a great note issuing institution in which is vested to an extraordinary degree, the financial responsibility of a nation in that, its methods enable it to supply at all times an elastic currency varying automatically with the needs of the country to maintain an adequate gold reserve through the regulation of foreign exchange and to conserve and protect the country's metallic reserves, to control the money market by its regulation of the discount rate and to serve as a sanctuary for all the banks in periods of threatened danger."[1] Such are the functions and onerous duties that are performed by the national banks of foreign countries. The Imperial Bank of India should realise that a national bank has to keep an eye on the national interests. It is not to be purely a profit seeking institution. It should protect and safe-guard the general financial situation of our country always. It should mind that it is not an ordinary bank but a banker's bank, a Central Bank for the

[1] R. M. Ireton "Central Bank."

country and in order to retain this proud privilege it has to make some necessary sacrifices. It should not compete with other banks but it should be a banker's bank. If it were to compete with the Exchange banks for foreign exchange business or the Joint-Stock Banks in the matter of discount business, with its far larger reserves and special privileges from the Government it would incur their hostility and resentment. It should not pursue an antagonistic policy to our existing banks. But it must be their refuge in times of panic and trouble and their guide and friend during all normal times.

Hitherto it has been said that interprovincial jealousies would be too much to be climbed over by a Central Bank and it has been said that it would be physically impossible to serve such a large country as India and that it would be difficult to procure the capable directors needed to run the Central Bank but now in the present case local Boards are given full freedom in their respective spheres while at the same time an effectively controlling Central Board has been instituted. The question of Government control has been happily solved. But only the Controller of Currency [1] should always be wide

[1] The Government Directors of the first Bank of Bombay did not do their duty clearly and this led to its failure in 1866. The Controller of Currency should be more active than these Directors and understand the situation always.

awake to understand the situation and be in a position to hold up action when the interests of the public are threatened by a misuse of its money. On the other hand, he should not make the Bank a servant of the Government. Independence of the banking power is essential and should be preserved at all costs. As for the fact that competent men will not be found to manage the Central Bank, it must be said that the "occasion and the hour breeds the man" and always brings him forth.

It has been remarked that it would be wise on our part to copy the Federal Reserve System in our country. We have at present local Boards[1] corresponding to the twelve Federal Reserve Banks and their boards, the Federal Reserve Board itself can be compared to our Central Board but the National Banks of America are shareholders of the Federal Reserve Banks and the Indian Joint Stock Banks have not this right and privilege to subscribe for the capital of the Imperial Bank. The Federal Reserve Board supervises the Reserve Banks, regulates the note issue and defines the bills of exchange that are to be discounted. The war has proved the fact that the Federal Reserve System has worked successfully and it has provided America all the

[1] Provision has been made for the creation of more local boards. There should be one such at all the Clearing House Centres *viz.*, Rangoon, Karachi and Cawnpore.

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advantages of a Central Bank system without having a Central Bank.

In India the Imperial Bank is to be a Central Bank but the irreconcilable elements, Government control and private management, have been successfully fused as in the case of the Federal Reserve System. Extensive powers are no doubt granted to the Federal Reserve Board and it can supply the needed credit at all times, thanks to the privilege of issuing notes on legitimate bills of exchange. The Imperial Bank at present has not been given power to issue notes but the note-issue will be handed over as soon as it is practicable and it will have to manage it according to the regulations which will be passed by the Government of India. The needed elasticity will be secured at present by the provision of issuing of five crores of more notes on the strength of export bills of Exchange which may be brought to the door of the Controller by the Imperial Bank. This is a tentative measure that will no doubt find a permanent place if it meets with success. Such definite power should be given to the Imperial Bank to increase credit currency at times when there is real demand for it and when it has 'loaned up to the full limit' as bankers would put it. But such wide powers should not be entrusted to a private institution until the Imperial Bank has vindicated its usefulness and unless the Bank has won its own spurs.

Next the Federal Advisory council can be copied here with some advantage. The Exchange Banks, other Commercial Banks, the Agricultural and Industrial banks and the shroffs can all be represented in a council which should meet occasionally and exchange its views with that of the Imperial Bank. Such a step would enable the Imperial Bank to feel the pulse of the market and the policy of the Imperial Bank itself might be changed to the advantage of these parties. The absence of a Banker's Association which can watch the banking policy of the country is keenly felt. The institution of an advisory council is the nearest possible approximation to such an Association and as such it should be created as early as possible.

It was the accepted opinion in many quarters that the Presidency Banks were rendering more help to European traders. The public deposits, *i.e.*, Government deposits, belong to the Indian tax-payers and with this money more help is rendered to the European trader. The grievance was that Indian trade was not given its due share of advances. Attention was drawn to this fact by Mr. Vidyasagar Pandya in his evidence before the Chamberlain Commission and the Hon. Mr. B. N. Sarma repeated it in his State-bank resolution before the Imperial Legislative Council, the other day. The Hon'ble Mr. H. F. Howard gave facts and figures repudiating

this remark. The Imperial Bank of India should take pains that no such accusation will be levelled at it also. It should take pains to construct a separate set of figures once in six months at least to show what amount of Capital and deposits belong to European interest and what amount is owned by the Indian people and its respective advances to the two communities and their interests. There is the opinion prevailing in many circles that a European monopoly is being aimed at by creating the Imperial Bank and when responsible leaders voice these facts rightly or wrongly, the people are apt to be led away far from the truth. No scope should be given for such a sort of distrust to be created among the Indian community. A positive proof of its help to both the communities and its due response to their legitimate demand should be placed before the public. This would strengthen the confidence of the public in the Bank that it is not sectional and communal interests that are being cared for but that Indian national interests are its sole concern. It is highly advisable that it should do such a thing in the first few years of its existence say for a period of ten years.

The Imperial Bank itself should remember a few of the following facts that will conduce to its success and prosperity. It is to serve popular necessity and not syndicated wealth. It

should interfere as little as possible with the work of the existing banks. It should keep a great portion of its Reserve in a perfectly liquid shape so as to be available at any time. If the Imperial Bank does its duty on sound lines promoting national interests and adequately safeguards the general financial situation always it will enable India to take a place in the front rank of nations and quit trailing along as a subordinate adjunct to the London Money Market. Our currency system would be rendered more automatic and elastic and more sound than at the present day. These and many other advantages can be reaped if (it is a very big if) the Imperial Bank can rise equal to the situation and guide the financial destinies of the nation in an unimpeachable and unselfish manner.

If the Imperial Bank of India furnishes practical proofs of its utility more and more powers should be entrusted to it. Already a semi-state Bank, it is bound to become a fully fledged Central Bank with all its privileges and no doubt with very onerous duties.

The Imperial Bank should try to bring about direct relation between the Indian Money Market and the London Money Market. At present there is only an indirect relation existing between the two. The Indian demand for gold affects discount rates which in turn affects the

exchange rates. The Government of India habitually loans out a part of its cash balances in the London Money Market for short periods. These loans weaken the controlling position of the Bank of England and it is not able to pull in gold from India just as she does from other commercial centres by simply raising her discount rate. The successful working of the Imperial Bank will lead to a lowering of the present high bank rates in India and this may enable the Bank of England to pull in gold from India also. Thus the Imperial Bank is bound to excercise a marked and perceptible influence on the ebb and flow of gold from India and into India. Then perhaps it will be possible to revise the time-honoured dictum that "India is a sink of precious metals."

CHAPTER VIII

INDUSTRIAL BANKS

Need for finance.

That industries need finance is a self-evident proposition. Either to increase production or to buy more raw materials or to replace worn out machinery or to employ more skilled workmen or to extend the site of the factory or to increase the wages of the labourers, capital will be required. The entrepreneur needs capital on the strength of the industrial securities he possesses. They are generally as follows : (1) the land on which the factory is constructed if it is the property of the industrial concern. (2) The factory buildings in which the business of manufacturing is carried on. (3) The implements, tools and machinery which are required for aiding the manual labourers in the process of manufacturing. (4) The portion of circulating capital which is set aside for the payment of wages of labourers and the clerical staff of the factory and some 'contingency' funds laid down for future use. (5) The raw materials that have been purchased with the view of being turned into

finished products. These are the properties that can be said to be at the disposal of the entrepreneur and on the strength of these securities capital should be obtained for any of the abovementioned needs.

The Inability of Commercial Banks.

But the ordinary banks, or 'Commercial Banks' as they are styled, are not in a position to grant accommodation on account of the following reasons. Firstly, the Banker is not an expert in the matter of land and building valuation and the value of the land might deteriorate on account of social conditions and it may land him into a course of protracted litigation if the rights were not to be securely guarded and the ordinary banker does not care to scrutinise all these carefully and grant the needed accommodation. In fact neither has he the inclination nor the time required to value carefully these securities. Again buildings and machinery would fall in value if the Company were to stop the business for a time. The machinery unless carefully looked after will be valued as old iron and nothing more. The raw materials the entrepreneur might possess might be of such a nature the value of which the Banker might not easily estimate and so it is not possible for the entrepreneur to persuade the commercial

banker to give him the needed accommodation. The possibility of a strike, the perishable nature of the article mentioned and the possibility of foreign competition will all have to be taken into consideration and as such the entrepreneur is not in a position to satisfy the commercial banker as to the securities which he has to offer; so the commercial banker is loth to grant the exact amount of capital which the industrial securities warrant the entrepreneur to demand. The ordinary commercial banker does not indulge in taking such doubtful securities. The securities that can satisfy the dictates of prudent commercial banking should possess the following features:

"The securities should be well-known and be of a definite nature. They should be readily convertible into cash. The pledger's title to those securities should be unquestionable. They should be legally pledged to the bank. They should secure a specific debt. They should be accurately described. They should be of sufficient value to cover the indebtedness, possibly expenses of collection and contingent charges. They should be definitely located. The pledger's character should be prudent and industrious. The securities should be of such a nature as to have stable value. A perfect banking security should combine ultimate safety, a certainty of payment on a specified

and not a distant day, a capability of being converted into money in cases of unexpected emergency and a freedom from liability of depreciation."[1] The industrial securities of an entrepreneur do not possess these characteristics and hence the ordinary banker does not grant accommodation. Not only are these securities not acceptable, but also the ordinary banker finds it imprudent to finance 'long-term' loans with the 'short-dated' deposits he has at his command. These are payable on call or at a specified date and hence the ordinary banker cannot lock them up with impunity in long-dated loans. So it has been stated that there should be separate banks respectively for agriculture, industry and commerce. Any bank that takes up the three lines of business is sure to come to grief and the Panjab Bank failures have been attributed to the glaring violation of this acknowledged principle.

Specialisation.

On the European Continent special banking institutions exist for these three purposes. In France, the Credit Agricole takes up agricultural finance into its hands, the Credit Foncier takes up the business of mortgage loans and loans to

[1] George Rae, "Country Banker."

communes and thus provides long-term credit. The Banque de-Paris-et Des Pays-Bas takes up the financing of such industries as railway building, harbours, tramways, electrical enterprises and frequently acts as the manager of syndicates for promoting industrial concerns.

In Germany, the Raiffeisin Co-operative credit societies take up the business of agricultural finance. The small producer and trader of the towns is looked after by the Schulze Delitzsch type of co-operative societies. The Preussische Prandbrief Bank and Preussische Central Bodencredit—look after the mortgage business.

In Japan, the Yokohama Specie Bank has been established to look after the mechanism of foreign exchange and attend to other commercial purposes. The Hypothec Bank of Japan modelled on the Credit Foncier de France looks after the agricultural interests. The Industrial Bank of Japan is based on the model of the Credit Mobilier of France and is a financial organ for helping industries.

In England the British Trade corporation was recently established to grant larger and 'longer credits' than the existing banks for the helping of the British producer. Thus everywhere there is a line of distinction drawn between the financing of agriculture, commerce and industry.

The Need for Specialisation.

It is a well-known fact that the nature of capital varies in the three lines. "In commerce the money invested is brought back immediately by the disposal of the merchandise and so a long credit is not needed. In industry the capital becomes fixed in raw materials and is restored as soon as the materials are manufactured and sold. The capital invested on agriculture returns slowly by annual instalments. Regarding the certainty of redemption, the capital invested in commerce is influenced only by artificial market fluctuations while agricultural pursuits are affected by natural causes uncontrollable by human energies, so that, to this extent, the return of capital in agriculture is uncertain. As regards the renewal of capital agricultural pursuits unlike the other two lines, require little, the period for which the capital becomes fixed being long, unless the land purchased meets with some catastrophe. In industry a renewal is necessary to a certain extent owing to wear and tear of plant and buildings and to the sale of the articles of manufacture. In commerce, the term of fixed capital is shortest, renewal being necessitated on the sale of goods."[1] Thus the operations of capital

[1] Quoted from the article on the Japanese Banking System—National Monetary Commission, U. S. A.

are bound to vary in the three pursuits and so there should be three kinds of capital.

The Present Situation in India.

The Indian Industrial Commission has examined the question of Industrial Banks and industrial finance thoroughly. It recommends the establishment of Industrial Banks and asks for the appointment of an expert committee to consider the question of banking facilities that are necessary for the initial and for the current finance of industries.

The Tata Industrial Bank was started recently and as the Indian Industrial Commission has remarked, "it has not yet had time to evolve a systematic policy in dealing with industries." Some more banks[1] professing industrial finance as their main business have been started but they can all be counted on fingers' ends. More of these institutions are necessary or as the Bombay Industries Advisory Committee has stated, "the establishment of a central Industrial Bank or similar organisation with a large capital and numerous branches designed to afford financial support to industries for longer periods and on less restricted security that is within the power of practice of existing

[1] The Gwalior Financial Corporation, the Calcutta Industrial Bank, the Karnani Industrial Bank, the Indian Industrial Bank and a few others in Bombay.

banks, is urgently needed and as in the case of Japan, a certain amount of Government aid and Government control are also necessary for its safe working." The Imperial Bank is prohibited to do this business by its Bank Charter. "It cannot grant loans for periods longer than 6 months and it requires the security of two names. The other banks slavishly model themselves on these lines hence the financing of industries is in a backward position.[1] No doubt the Co-operative Credit Societies are doing something to alleviate the hard lot of the small producer and artisan and the village Mahajan sometimes finances them but his rate of interest is oftentimes prohibitive. Thus Industrial Banks are needed to help the current enterprises of our country and they should also help the starting of industrial concerns by supplying them with initial capital and by 'underwriting' the shares of newly started industrial ventures.

[1] The existing banks cannot lock up their money in long-term loans to industries. After the crisis of 1913-15, deposits generally are made for short periods *viz.*, 4 months or so. They charge unusually high rates even for short-dated loans to industrial concerns. They take a very wide margin in their favour *viz.*, 20 to 25% and this is a great handicap to industrialists. So Indian managed joint-stock Banks for the purpose of industrial financing should be started. They should rely on their own capital or upon deposits attracted for six or seven years.

The Duty of Industrial Banks.

More Industrial Banks which are in touch with the small industrialists and which are fairly able to estimate well the prospects of a fairly large range of industries and which possess sufficient money which can be locked up for a long time are an important desideratum for promoting the new-born industrial activity of our country. These Industrial banks should possess a large amount of paid-up capital and attract deposits payable after a number of years. If additional capital is required it should be raised by means of debentures which may be repaid after a period of twenty or thirty years. The amount of capital that can be raised by this means can be locked up with impunity. The Industrial Banks should have nothing to do with short-term deposits, remittance of money and the other ordinary business of a commercial Bank. The Tata Industrial Bank has taken up exchange business and has opened a branch in London. The other Industrial banks have also taken up ordinary banking business.[1] The Indian Industrial Commission itself has recommended that

[1] Many of the Indian Industrial Banks wish to imitate the German "Grossbanken" in attempting a similar kind of 'mixed' business also but they are totally lacking in initiative and promoting vigour which is a characteristic feature of the German Banks nor have they the requisite capital and knowledge.

these Industrial Banks should for the time being take up ordinary banking business. This is no doubt due to the desire to make these concerns profit-paying ones and whether such a thing will continue in the future will depend on the number of industries forthcoming for help. The prevalence of war unnerved the people who have stood at the helm of these industries and now that the cramping effect of war is being reduced, industries are bound to sprout up. It would be wise on the part of these banks not to do a "mixed business" in future when demand for industrial capital would be keen. Thereby they would be defeating the very object and intention with which they have been started.

The Industrial Bank should not finance solely one single interest or a single group of inter-dependent interests because the bank's fate will be identified more or less with the industry and will be ruined in case any calamity befalls the industry. Hence it is unwise to identify the interests of the Bank with that of one industry. Again the way to help the new industries is by supplying initial capital after carefully examining proposals or provide money loan after the industrial concern is floated in the market. It can grant loans on the industrial securities of the concern or it can underwrite some of the Company's shares itself. But it is essential in this case that the Directors of the

Bank should first of all know something about the prospects of the undertaking. It should be wise if it were to employ specialists in those business lines to examine the proposal and pronounce their opinion on the further prospects of the individual undertaking and be guided according to their advice. The Industrial Bank should wisely distribute its capital, (*i. e.*), loans on plant, building, and land should be well-considered and limited in each case but it is always in its interests not to invest a large proportion of its capital in helping working capital and providing working capital to new concerns. The success or otherwise of the Bank would depend on the limitation of each class of business to its proper proportions. But of course, the Industrial Bank when it supplies much initial capital, should take care to protect its own interests by employing one or two of its men as directors of the new concerns.

The task of rendering financial help to all industrial concerns lies before the Industrial Banks that have arisen and that are yet to arise. They should be able to give expert advice and encourage Indians to take up the manufacturing lines where there are possibilities of success. Each Industrial Bank should publish circulars stating the few industries that can be taken up successfully and promise to accommodate all pioneer manufacturers with the necessary finance.

Suggestion.

In Great Britain the British Trade Corporation so far as its prospectus informs us "undertakes to organise study and research into new ideas and inventions and examine and nurse new schemes or development until sufficiently proved and ripe for public investment." The Corporation tries to act as a "link between the British investor and British industry." Our Industrial Banks should have this lofty ideal before them rather than be mindful of their own interests and attend to ordinary banking business also. There is no use of merely granting loans on approved securities to the existing industries. They must float undoubted industrial companies underwriting their capital and offering the public ample facilities to invest their humble savings in these new undertakings so they should not only be *helping* the existing industries but actually *create* new industries where there are possibilities of success. If Indians possessing the necessary individual initiative and resourcefulness are not to be had, they should persuade enterprising entrepreneurs of the West to go over here and shape the raw materials into manufactured products rather than allow them to be shipped to foreign countries only to be re-exported to India as finished

products. This process will enable the Indian industrialists to gather first-hand technical knowledge and adequate experience from the foreign manufacturer's hands. Then only can a great impulse be given to industrialism in our country.

Again the Industrial Banks must realise that the Indian investors have no proper guide at present to guide their savings into productive channels. They bury their savings in the Post Office Savings Banks or employ them in unremunerative forms of employment. Such misdirection of savings and their wrong use or in some cases no use at all, should be checked and the Industrial Banks should stimulate the promotion of new industrial undertakings and carry them to a successful conclusion. India is capable of becoming industrially one of the prosperous countries if only the Industrial Banks can supply the needed enterprise and provide effective finance and induce for some time to come the required technology to come out from the West and settle here. These Industrial Banks can not only make India one of the industrial leaders but they can also go a long way in creating the investment habit in the minds of the Indian people.

It must be borne in mind that industries cannot be successfully worked as small independent units. Hearty co-operation should exist

between the industrial, commercial, and financial communities and then only can our industries take a strong root in our country.

The next great want of our industries is wisely directed state help. What Government can do for industries is amply illustrated in the case of Japan and Germany. The Government of India professes sympathy and lays down as its policy the successful promotion of Indian Industries. The Government of India besides lending practical help to industries, should stop foreign exploiters from placing any difficulties in the path of our industries. It should put an end to the differential treatment of European and Indian industries by the Railway Companies. India need not go through the long apprenticeship of patient trial, research and experiment by which the industries of the European continental countries have been built up. By engrafting on her economic system some of the features of industrialised Europe she can earn an "unearned increment." India will be wise to gather the ripened fruit. An industrialised India will be a tower of strength to the British Empire.

CHAPTER IX

THE INDIAN POST OFFICE SAVINGS BANKS

Brief History

The existing system was a gradual development out of "the Government Savings Banks which were started in the Presidency Towns between the years 1833-35. This system was extended to certain selected districts where they were instituted in connection with the District Treasuries. A uniform type these Savings Banks was introduced in all other parts of the country in 1882 and 1883. These absorbed the business of the District Savings Banks in 1896."[1] From that date forward these Savings Banks have been managed by the Postal Department. No special reserves are maintained against these deposits. The deposit money[2] constitutes what is known as the 'unfunded debt' and is a floating charge on the credit of the Government of India. The deposit money is utilised for capital expenditure.

[1] The fifth Decennial Report of Moral and Material Progress in India, p. 302.

[2] The greater is the deposit money, the greater is the claim on the general resources of the Government.

Object

The chief object with which they were started was to encourage the saving habit and inculcate the habit of thrift among the middle and lower classes of people. Direct encouragement to investment is given by the granting of interest (3% on call deposits and 3½% on fixed deposits). The limit up to which an individual depositor can place money is Rs. 750.[1] Within the course of one year his total amount of deposits cannot be more than Rs. 5,000. The Government gives the depositor the option of converting his money into Government Paper if he so likes.

It has been calculated that hardly 15% of the depositors are agriculturists. Only the intelligent middle class people avail themselves of these banks and the low rate of interest offered by these banks is not a great inducement sufficient to compel them to retain their savings here. Mortgage and pawnbroking business pays more and the ladies of wealthy familes, the monied lawyers, and the more unscrupulous of the Government Officials who earn money by 'tips' all engage their savings in this lucrative business. So long as Joint-Stock mortgage banks specialising in this particular line, are not started the

[1] Up till the year 1912 it was Rs. 200 then it was raised to Rs. 500. But now the maximum money that can be deposited within one year is Rs. 750.

investment of savings in these banks or the Joint-Stock Banks cannot be expected to grow apace. The possession of land confers peculiar social status and much money is invested in the land-mortgage business. So long as these habits dominate it is hard to expect any increase in the banking habit of the people.

Sir Henry Babington Smith's Committee writes "we are impressed by the comparatively insignificant figure of the total deposits in the Post Office Savings Banks amounting to only 24½ (crores) on 31st July, 1914, before the conditions that ensued on the outbreak of war led to the heavy withdrawals. We understand that the substantial increase in deposits in the year 1912-13 and 1913-14, amounting to over four crores, was due mainly to the grant of additional facilities and we recommend that the Government of India should examine how far, notwithstanding the admitted administrative difficulties, it may be possible to improve the present procedure for the deposit and withdrawal of money and to increase the number of Post Offices conducting savings bank business."

Suggestions.

More concessions as to the withdrawal of money say twice a week, the raising of the maximum amount of deposit money from Rs. 750 to Rs. 1,500 for one year and the issuing of more

pass-books in vernacular to those who desire it should be granted. A higher rate of interest should also be offered. Every Treasury and sub-Treasury should be utilised as a Savings Bank and empowered to deal with current accounts. The Savings Banks system should be energetically pushed throughout the country by opening more Post Offices.

It must be remembered that these Savings Banks encourage savings but like the co-operative credit societies they do not create wealth by productive employment. They not only promote thrift but virtually increase the wealth of the society. So they are in a sense superior to these Post Office Savings Banks and as M. Luzati has said they are "perfected Savings Banks."

Table[1] *illustrating the growth of deposits in the Post Office Savings Bank.*

Year.	Number of Depositors.	Deposits.	Interest.	Average balance of deposits.
		Rs.	Rs.	Rs.
1900	786000	37597000	2827000	123
1905	1059000	55523000	3812000	125
1910	1379000	60021000	4477000	115
1914	1639000	116037000	6191000	141
1915	1644000	96062000	5394000	91
1916	1666000	81632000	4320000	92
1917	1647000	93820000	4547000	101
1918	1638000	101669000	4440000	101
1919	Not available.	134511000	4687000	Not availale.

[1] Mr. G. F. Shirras, "Indian Finance and Banking," pp. 474.

CHAPTER X

Co-operative Banking

It is not my purpose in this chapter to launch out into a general thesis on the subject of the aims, the methods and benefits of the co-operative movement in all its various manifestations. The chief object of this chapter is to show the structural differences between a 'Co-operative Bank' and a 'Commercial Bank' and the different methods of procedure that are adopted by them. As the Report of the Government Committee on Co-operation in India 1915 has shown, "the same basic laws of finance govern both ordinary and co-operative banking."

Co-operative banking in India is in its infancy [1] and it may without exaggeration be said that it has not yet had time to evolve a systematic and definite policy of its own. The Co-operative mind is still oscillating between long-term and short-term loans. The way in which the administration of the Reserve Fund is to be conducted has not been positively laid

[1] A table showing its gradual growth is to be seen at the end of the Chapter.

down. The problem of securing adequate financial help has not been satisfactorily solved as yet. The Central Banks are not doing their legitimate duty. H. W. Wolff says "One of my complaints against Indian Co-operative Credit in its present shape is that under it the Central Banks are employed for different purposes than those for which institutions of their kind were really designed. "In responsibility decentralisation in finance concentration. Central Banks, in the European sense, are not to serve as instructors, not to audit and the like, but as balancing stations and 'transformers' making co-operative security which is a thing *per se* employable in the capitalist manner and so rendering it serviceable in the capitalist market as a basis of credit." Such and similar other problems have yet to be solved but the co-operative credit movement has taken a firm hold of the people, and as H. W. Wolff prophetically remarks "the movement is bound to become a permanent asset of immense value to India."[1]

Before entering into a keen discussion as to its future possibilities in transforming India, it is imperative to recognise the vast difference that exists between a Co-operative banking institution and the commercial bank.

[1] H. W. Wolff, "Co-operative Credit Movement in India," pp. 344-45.

It is a well-known fact that the business of 'a bank' is to 'create credit.' The banks are 'credit factories' whose sole mission is to mobilise credit and place it in the hands of the deserving people of the community. It is to act as an intermediary between the lenders of money and its borrowers. It collects small savings and turns this broad stream to fertilise and irrigate the channels of industry and commerce. It grants loans on the strength of adequate security entrusted to its hands. Occasionally it permits people of undoubted personal security to 'overdraw' their accounts now and then for a short time. It discounts bills of exchange manufactured during the course of trading transactions and by purchasing these trade bills, it grants the needed money to finance trade. This briefly speaking is the work of the 'commercial Bank' which is familiar to everybody. It brings prosperity to all parties concerned in the matter but unfortunately it makes the rich, richer and in no way benefits the poor man and does not uplift him to a higher scale in the society. The few fortunate rich can satisfy the exacting requirements of a commercial bank in the matter of security but the poor by virtue of their poverty, are forbidden the taste of its good wine. It is here that the Co-operative Bank comes up to fill the gap. The Co-operative bank is the poor man's bank or 'Peoples' Bank' as learned

writers put it. Its main duty is to 'democratise credit' and place it in the hands of the poor who though they may be entitled to credit scarcely get any recognition at the hands of the commercial bank.

The Co-operative Bank acts not only as an intermediary between the lender of money and its borrower but it tries to inculcate principles of thrift. In the very process of obtaining credit from the co-operative bank, is there education. As M. G. Francois has written the Co-operative banks 'democratise credit, relieve distress, create wealth and turn to good account industrial and agricultural opportunities."[1] Thus the object of a commercial bank is to supply credit to those that can afford to have it. The object of a co-operative bank is to create credit for the poor who desire it and in the very process of obtaining credit the poor people are educated and the hitherto isolated people learn the value and powers of association. In the very method of providing credit the Co-operative Bank teaches the lessons of self and mutual help and suggests the extensions of these to outside matters other than credit and thereby promotes insensibly their own self development.

The 'Commercial Bank' is a Joint-Stock bank where the manager plays an all-important part and the shareholders are 'sleeping partners'

[1] H. W. Wolff, "Co-operative Banking."

who awake out of their slumber once in a year and so long as their pecuniary appetite is satisfied they are content to "let sleeping dogs lie." On the other hand the co-operative bank resembles "a piece of active machinery in which every spring, every wire is alive and knows and conscientiously performs its duty being endowed with the capacity of rendering discriminately service according to the merits of each case watching and checking the other parts." There is common control and wide publicity and efficient supervision in the case of the co-operative bank. There is a sense of responsibility in the minds of each member. There is wide discrimination in the selection of loans. Utmost vigilance is exerted in the control of their employment. Thus there is much of self-education in the case.

The Co-operative bank has certainty of custom and a well-known market. The quality of customers is all that is desired because the "customers have passed through the sieve of selections and having been tried and approved are held fast by the powerful bond of Joint-Stock interest and common liability." The commercial bank has no such advantage.

The Co-operative bank operates with small working capital and insists on prompt and easy payments. It succeeds in turning over its money with comparative rapidity. The Co-operative bank takes special safeguards to protect itself

against bad debts. They are the linking up of the liability of all and the insisting of productive use of money that is lent.

The Co-operative bank is 'near and familiar' while the commercial bank is 'distant and unfamiliar' to the customers.

Again the Co-operative bank is the most successful 'tapper' of savings. It affords a better rate of interest to the people. There is more remunerative employment of its funds than in the case of the Government Post Office Savings Bank. These are subordinate to the Government. They do not educate and train savers to independence and enable them to obtain business knowledge and promote self-reliance on their part. As Wolff has said, "It is not self-Government." A Co-operative bank is "the depositor's own bank and here the money may be profitably employed in setting up workmen's dwellings, in settling small folk on land and money is made to fructify in productive employment." It is this reason that has earned for them the well-known title "perfected Savings Banks."

There is no antagonism between the two kinds of banks, one seeking to destroy the other or planning for the downfall of its rival. There is a place for both these kinds of institutions in a well-organised credit system. Credit is needed by the rich as well as the poor. The former's needs are to be satisfied by the commercial banks,

the latter are to be cared for by the Co-operative banks. The Commercial banks hold the cash-box of the market, and have full control over the money market. The Co-operative banks, do not wish to dethrone them from this position. They wish to play a less humble role as "Collecting banks" and they are not 'rivals' but 'feeders' endowing small people with moderate capital and train them to banking habits and prepare them for business with more capitalist institutions to which they are likely to go as they become wealthy. They should educate and train the people towards habits of thrift and draw money out of hoards. This is the philosophy of Co-operative Banking as explained by the greatest of its living apostles, Mr. H. W. Wolff.

There is urgent need for the creation of more of these institutions. Referring to statistics we find their members have increased, the capital of these institutions has also increased and it is a matter of sincere congratulation that the true co-operative spirit is slowly spreading among the masses of the people. It is these societies alone that can supply the needed credit for the poor people. It is these alone that can educate them at the same time. It is these alone that can shatter the towering personality of the unscrupulous moneylenders and it is, these alone that can wipe out the village Pathan who recovers his heavy dues with an awe-inspiring stick.

Sir Daniel Hamilton said the other day " that we have 700,000 villages in India " and " what a small fraction of them have been benefitted. At the present rate of progress we shall have to wait until the year 2200 before every one of them has its own bank."

Mr. F. D. Ascoli says that " out of every 150 agriculturists in India now, only one obtains the benefit of accommodation from a village bank and that for every rupee advanced by a village bank 258 Rupees, are still advanced by the Mahajan."

As it has been said elsewhere the Mahajan should be reduced to such a position as not to be reckoned as a factor in the mechanism of credit in our country. The enthusiastic disciple of co-operation Mr. H. W. Wolff reminds us that 'Rome was not built in a day' and if it had been it would not have become the 'Eternal City.' He advises caution, safety and enduring success.

As Sir Daniel Hamilton has said the country is still " in the grip of the Mahajan." Mr. H. W. Wolff says that " it is the bonds of debt which shackle agriculture. It is usury, the rankest, most extortionate, most merciless usury—which eats the marrow out of the bones of the raiyat and condemns him to a life of penury and slavery, in which not only is economic production hopeless but in which also energy and will become paralysed and men sink down beaten into a state of

resigned fatalism from which hope is shut out and in which life drags on wearily and unprofitably as if with no object in view. There is no use in denying the facts—It is plain to all eyes."

To remedy this situation another Richmond should be made to compete with the oppressive Mahajan ; Wolff recommends two 'Richmonds' to bring about immediate redress. The first warrior he calls 'Thrift' and thrift can be encouraged by the Co-operative Credit Societies. The second warrior is modern Credit which is the result of an organised banking system and recommends the democratising of credit. Institutions that promote thrift and institutions that democratise credit are wanted. The Co-operative banks can do both these things and hence they are to be encouraged. It has been said in the first chapter that credit is the first need of India and the credit that is needed by the agriculturist can be supplied only by these Co-operative banks.

Another strong reason why these Co-operative banks should be encouraged is that the 'deposits' of these societies are of a 'lying' character. Mr. N. D. Beatson Bell and Mr. J. N. Mitra were the first people to point out this. Beatson Bell says that "Co-operative banks have weathered the crisis when many of the 'Swadeshi banks' failed ; they have weathered the crisis when the greatest war in history began, and they have

weathered many a storm already and in spite of these trials the Co-operative Credit movement is going strong." Mr. J. N. Mitra says that "while withdrawals from the Post Office Savings Banks were fairly large "and although there was a slight run on the Indian Joint-Stock Banks," "there was hardly any rush on the Co-operative Banks for deposits and this means the public has a good deal of confidence in the movement." As such it is these Banks that can best tackle with the so-called hoards of our ignorant agriculturists. The unproductive way, in which he turns his savings into ornaments can be combated by these institutions only. They should employ systematic "Collectors" or use the expedient of 'Home Boxes' to lure people to put money into them. These methods have been tried with success in America and bid good promise in our country also. The Co-operative banks are already acting as 'Compulsory Savings Banks' and in many districts in India, the cultivator deposits his money at the harvest time. This practice should be stimulated and when once the agriculturist is broken to thrift there is prosperity in store for him. When we find that even Joint-Stock Banks are not to be had in good number in India, it is not unreasonable to plead for an extension and increase in the existing number of the Co-operative Credit Societies.

These reasons if they do not exhaustively convince the reader for the development of these co-operative banks, the moral, social and economic advantages which are reaped as bye-products should also be remembered in mind. Mr. · J. N. Mitra says that "slowly but steadily the Co-operative movement is working out an economic revolution the importance of which cannot be exaggerated. The gradual release of the masses from the thraldom of usury, the better use which the members now make of their credit facilities, the improvement of the indigenous system of money-lending affording relief every year to an increasing number of people not directly connected with the movement, the inculcation of the principle of thrift and self-help, and the check which the system imposes on extravagance in social ceremonies, are some of the most direct and tangible results of the movement. Instances can be multiplied to indicate the indirect effects of the movement, how it promotes the moral and social improvement of the people, brings about reformation of bad characters, creates a desire for education, encourages the settlement of village disputes, by arbitration, discourages litigation, promotes a wider outlook on life and makes village life healthier in all its relations."[1] Surely

[1] In India attention is paid more towards Rural Co-operative Societies but Co-operative Urban Banks should also increase in number.

if the movement is fraught with such untold blessings, every step should be taken to accelerate the sound progress of this movement in our country.

Table relating to the progress of the Co-operative Credit Societies in our Country.

Year.	Number of Societies.	Number of Members	Working Capital Rs. (00,000 omitted).
1905	41	...	1
1907	843	90,844	23
1909	2,008	184,889	80
1911	5,432	314,101	203
1913	12,324	573,536	534
1915	16,324	824,469	896
1916	19,675	918,436	1,032
1917	23,036	960,960	1,222
1918	26,465	1,061,764	1,440
1919	32,439	1,235,891	1.755
1920	40,772	1,521,148	2,140

CHAPTER XI

Joint Stock Mortgage Banks

The Twentieth Century is a century of specialisation and the tendency towards specialisation is visible in banking business as in all other walks of our business life.

The English Banking system exhibits this specialising tendency to a very marked degree. The ordinary commercial Banks or 'Cheque-paying Banks' as Mr. Hartley Withers styles them, take up the business of attracting deposits and distribute their capital in loans, overdrafts and discounts. The 'discount' business itself is specialised by bill-brokers and the big discount houses who run 'a much bigger book' than individual bill-brokers or 'running brokers' as they are styled. The 'acceptance' business is looked after by certain 'merchant houses' though to a certain extent the commercial banks are becoming 'the watchdogs over the volume of acceptance.' Lord Farringdon's Committee has recommended the starting of a 'British Trade Corporation' in order to grant 'longer credits' to industries and any competition with

the existing commercial banks is altogether eschewed by certain rules in its charter. Specialisation has extended so far that certain kind of customers have contracted the practice of conducting business exclusively with one bank alone. An account with the Bank of England is considered as 'a commercial coat of arms.' Coutts and Company was considered as the bank of fashionable society. (It has been amalgamated with the National Provincial and Union Bank recently.) Cox and Co. is regarded as the military bankers.

The same specialising tendency is visible in the Japanese Banking system. There are five distinct kinds of banks which deal with Home Trade, Foreign Trade, Industrial business, Agricultural business and Colonisation business.

It is only in the country of Germany that the big German Banks (Grossbanken) perform a 'mixed' kind of business.[1] They do ordinary banking business (loans, overdrafts and discounts along with promotion issuing and underwriting) of industrial enterprises. Lord Inchcape styles them as "Clearing Bank, an acceptance House, an issuing House, a discount company, a promoting syndicate, a trader and banker," all these

[1] As the Economist puts it "The German Banks...are stock, bill and exchange dealers and brokers, banker merchants, trust, financial and promoting companies, etc. The Economist, October 21, 1911.

are rolled up into one term "banking business." Dr. Reisser has taken much pains to show that the 'mixed' business of their great 'credit banks'[1] has been due to historical conditions and these credit banks were called upon to help the process of industrialisation and well have they responded to the public call.

In India, although the system of banking conducted on Western lines is still in its infancy it exhibits already some signs of specialisation. The Imperial Bank looks after the financing of the internal trade of the country. The Exchange Banks besides performing foreign exchange business take up ordinary banking business. But during the busy season their hands are so busy with the exchange business that competition with Joint-Stock Banks or the Imperial Bank in the matter of ordinary banking business is out of account. Hence it would not be far wrong to say that they deal with foreign exchange solely. The Indian Joint Stock Banks take up the financing of the internal trade of the country. The Post Office Savings Banks have taken up the question of encouraging thrift among the poorer classes. The Co-operative Banks try to ameliorate the hard lot of the rural agriculturist and the urban artisan. Some Industrial banks have arisen

[1] The German Banks are styled "Allerlei Enterprisen," maids of all work kind of financial universal providers.

(the Tata Industrial Bank, The Karnani Industrial Bank, The Indian Industrial Bank, the Calcutta Industrial Bank, the Gwalior Financial Corporation and a few others in Bombay) already whose proclaimed mission is to render banking aid to industries but they are all doing ordinary banking business also in order to be paying concerns. Thus it is not hard to find these signs of specialisation in our banking system.

But certain well-known types of banking business have been left neglected and uncultivated as yet. There exist no "mortgage banks." The mortgage of urban property or land mortgage has not been studied and cultivated as an exclusive line of business in our country. As has been said already, all the departments of credit have not been fully organised and mortgage business has to be taken up by some enterprising banks that may be started one day or other in the near future.

Sir James Meston divided the Banking system into four departments. There is first general banking, secondly the Land Mortgage Bank, thirdly the Co-operative bank and fourthly the Industrial bank. Specimens of the first, third and fourth kinds exist in our country. But the second one, namely, the Land Mortgage Bank, has yet to be created. Mortgage Banks are included under the heading of Indian Joint

Stock Banks and some Indian Joint-Stock Banks like the Allahabad Bank, Ltd., lend on equitable mortgage but there is not much of specialisation of this business done by them.

Besides this reason, there is another for the starting of more Mortgage Banks. Mortgage business in the interior lies chiefly in the hands of the indigenous bankers and members of the wealthy class. The money-lenders' terms are too high and exacting. The borrower is exploited according to the urgency of his need and nowhere does he get fair terms to which he is entitled by virtue of his security. There should be the substitution of organised credit, that of a bank for that of the money-lender. As Sir Frederick Nicholson has said "The individual system of providing credit is too elementary and need must make way to higher and more organised form of credit as general wealth, order, business confidence and habits of association develop on the part of the people." It is these kinds of banks that are necessary to eliminate the dangers of usury. No amount of tinkering with laws can stop usury.

The model on which such Joint-Stock Mortgage Banks should be built is that of the Credit Foncier of France and the European Mortgage Banks that have arisen on the model of this French institution. In Germany the Hypothekenbanken (Mortgage Banks) meet

the needs of credit on urban real estate. They were founded during the years 1862 to 1872 and many more arose during the great building boom of 1894-96. Most of these Banks minister exclusively to the demand for real estate credit and some others combine this speciality with other lines of banking.

The object of such banks should be the redemption of ancient and oppressive private mortgages by granting long loans at moderate rates of interest. When a number of such institutions transact business the present abnormal rate of interest will be reduced and it will break the monopoly of usurers. Their business is to grant mortgage credit without requiring any declaring of the object or purpose of the loan. Such Banks can be floated in the ordinary way. Only one word need be added as to the size. They should resemble the tiny Joint Stock Banks one hears of in Switzerland. A big mortgage bank situated in a town may find enough employment for capital and it may not descend to rural tracts. Urgent help is needed in rural parts also and city capital should necessarily be shifted to these parts.

One point remains to be explained. Mortgage is very often considered as the road leading to ruin. This is not essentially true in every case. Sometimes it may happen that a man's capital might be lockedup in land, houses,

stock, etc., and suppose it has to be temporarily mobilised for an occasion. In such a case raising credit by mortgaging the property is not to be objected to nor is borrowing at such a time, by mortgaging, a sign of weakess. But if the borrowing is not temporary mobilising of capital but chiefly due to improvidence and recklessness, it is to be condemned as necessarily leading to ruin. But so long as a fair and equitable proportion is maintained between the liability and the assets and the rate of interest is not too high to be covered by the return on borrowed money, mortgage builds a fortune for the borrower and there is no reason to repent for the transaction.

There is plenty of room in India for such kind of institutions. They will find their due place in a perfectly well-organised system of credit which will arise one day in our country. They ought to be surely welcomed for their competing capacity with the money-lender. As Sir F. Nicholson has said "Competition is the only way of bridling the money-lender now."[1]

[1] Sir Daniel Hamilton also realises the gravity of the situation and says the interest rates of 30, 40 and 60% due to these indigenous bankers must be lowered. He is so emphatic in the condemnation of the indigenous banker that he says: "What India wants is an Act written not with a goose-quill dipped in milk and water but with an iron pen dipped in the blood of the Mahajan, for until the banking system for which the Mahajan stands is dead, India will not live"—*Souls of Good Quality* and other papers.

He must be of no account as a factor in general credit. The competition of these banks ready to lend money is the only way of knocking down the present high rates of interest.

CHAPTER XI

Land Mortgage Banks

It has been remarked in the first chapter that all credit institutions which provide cheap and effective credit should be encouraged. There is too little of credit in our money-market unlike the London Money Market which, according to Hartley Withers and other authorities on English Banking, is suffering from an inadequate reserve which is made to support a top-heavy credit system. Money is needed to finance agriculturists. As Louis XIV of France has said : "Credit supports agriculture as the cord supports the hanged." Credit for them should be so designed that it is able to meet 'short-term' as well as 'long-term' demands. To make some permanent improvements in land, money is needed for a long term and such a need can be supplied by the Land Mortgage Banks.

Sir F. Nicholson has divided these institutions into private and public institutions; the latter are chiefly the creation of some local body whether province, municipality or commune. Germany, Switzerland, Russia and Denmark possess land banks of this type. In Argentina

there is a highly developed system of land mortgage banks and their bonds are known as "Cedulas." In India the Government is bound to the policy of *laissez faire* and upholds the theory of free and independent banking. As such it cannot be expected that the Government will give the needed impetus to the starting of state-managed land banks. The only other alternative is to start private institutions dealing with land mortgage business. In the previous chapter mortgage banks of the Joint-Stock type have been recommended for dealing with urban property and other moveable securities.

The object of this chapter is to point out how the private institutions of borrowers can successfully be started for the purpose of obtaining loans at cheap rates for the members on the common security of all. The object is to obtain cheap loans and this can be easily done because their credit is unlimited and they have no share capital to absorb profits as dividends. Such institutions are known in Germany as 'Landschaften' and in Hungary as the 'Boden Credit institutions.' In Denmark, they are known as Credit Corporations. Such Co-operative land mortgage banks should be created in our country.

These banks should consist of land-owning borrowers with a right to claim a loan on the security of land at any time. The land is to be

valued by duly appointed and qualified apprais-ers and the loan is to be given in terms of money or bonds. The loan is to be made to run for a number of years and the borrower has to repay it by easy monthly instalments or clear off the debt all at once, if he has the means to do so. He is to pay the same rate of interest which the Bank pays only providing for a small margin which can be spent for management expenses, Reserve Fund, valuation money and other necessary fees. Loans are to be given to the extent of half the market value of the land and the land itself is the security for the bonds to be issued by the Bank. The duty of the borrower is not to allow the land to depreciate in value and deteriorate in productive capacity. He has to systematically pay interest and the amortisation payment (Sinking Fund) regularly till the end of the stipulated period.

In other countries such banks are carefully watched over by the Government and due pro-vision is made that the bonds issued by these Land Banks are honoured by the Commercial Banks and in the European countries these bonds are reckoned as equivalent to Government securities and are valued more because they do not fluctuate like the latter which depend on the glorious uncertainties of political fortune. Prac-tice varies slightly in the various cases of the European Land Banks. Some have share capital,

some accept State aid, some admit well-wishers also who have to take shares. These are all matters of interesting detail but the main lesson one has to learn from the institutions is that they tend to eliminate all chances of conflict between the borrowers and lenders of these institutions. Their object is cheap credit Collective guarantee with excellent security is their basis of operation. Vigilance and control are their only proper safeguards. There is provision for compulsory amortisation. Thus the object is the creation of cheap credit which is accessible to those people who desire it. The Co-operative Land Mortgage Banks should also be tried in our country and the authorities concerned should pay due attention to these.

There are many people who partake of the view that Co-operative Land Mortgage Credit is a sordid and unpleasant task devoid of all moral and higher education and so they deprecate all attempts towards the starting of these institutions. But mere sentiment should not be the guide in such a vital matter as this. Long term credit is needed for the agriculturist to affect various improvements in his land, to adopt machinery and modern scientific methods of farming. There should be effective agricultural credit. It has often been said that agriculture is the mainstay of our people backed up by manufacturing industries, if it is possible to develop them. The

war proved a blessing in disguise and when once the industrial opportunities have been demonstrated, capital is so rushing towards industries, that an industrial boom is inevitable. Agriculture should be developed so as to be able to furnish the needed food to the agricultural and the industrial classes also. Hence every road that leads towards the perfection of agricultural credit ought to be welcomed and there is no doubt that co-operative land mortgage can benefit India.

But the great difficulty is the inertia that is the characteristic of our people. But for Government help and indirect persuasion the Co-operative Credit movement itself would not have shown such phenomenal development and astounding progress. Even now there is an opinion prevalent among the masses that the Co-operative Credit Societies are Government machines financed, endowed and worked by the Government. When the people are so much steeped in ignorance, no other influence except that of the Government can give the needed fillip at the start and no other body can exert such profound influence as the Government itself. The landlords themselves, must be willing to combine for the purpose of obtaining cheap credit. The Government has to favour an organised system of land mortgage credit. An efficient system of land transfer and land registration should be

established. State guidance and supervision are needed and if they are forthcoming the landlords would be willing to take advantage of this new form of co-operation.

The Government of India is fully aware of the fact that agriculture has a splendid and most prosperous future and that it is bound to be the greatest of all the industries of India. They have already inaugurated a policy of agricultural development. Their researches and their practical demonstration of improved methods of farming are all steps in the right direction. But they must also provide the needed credit for the agriculturist who is now in the throes of poverty. Co-operative Land Mortgage credit is bound to succeed if both official and non-offic[illegible] efforts can co-operate and then only can the agriculturist grow two blades of corn where only one is growing now.

The great indebtedness of the country landowners is a patent fact. The transition from extensive to intensive cultivation and large-scale operations in agriculture cannot be accomplished without the help of agricultural credit and a wide use of mortgage credit is absolutely essential. Rapid improvements and fresh development in agriculture are necessary to feed the growing population of India and a great growth in our population will create a wide basis for fresh industrial activity on a large scale.

Co-operative Land Mortgage Banks are needed to supplement the existing co-operative credit societies and working together they may be able to successfully tackle the problem of our agricultural indebtedness.

CHAPTER XIII

THE NEED FOR BANKING REFORM

One need not labour hard to prove that the existing banking system of India needs thorough reform. There is hardly "a banking system" worth its name. A banking system where the several component banks remember their close affinity of relations and extend mutual sympathy and help is absent in this country. India does not possess a close-knit banking organisation as in the case of Germany, Japan, France or the United States of America. This absence of "thirst for system or wholeness or close-knit organisation" which is so characteristic of Germany is chiefly due to the tendency of the Indian banks to do business "each for itself." The Indian Exchange Banks, the Presidency Banks and the Indian Joint-Stock Banks work severally and not collectively. The latter have striven hard to protect their business from competition with the Presidency Banks; which have never helped the Indian Joint-Stock Banks either with wholesome advice or money at their hour of trial.

These Banks copy the tendency of the English Banks which justify their existence solely on the ground of profits. They aim at becoming professional bankers having no connection with industrial finance. It is true that short-term loans are granted to industries but they never sacrifice the principles of safety and liquidity of assets which commercial banks have always to keep in view. But commercial banks alone will not create the needed credit for our agriculture and nascent industries. New banks should arise to satisfy the needs of small men and small industries. Just as the Co-operative Credit movement of our country is borrowed from Germany, the German feature of close relationship between industry, finance and transportation is also worth imitation. Indian economic development cannot be fostered unless there is a close alliance between banks and industries as in the case of Germany or Japan. Either new Industrial Banks having nothing to do with short-dated deposits should arise or the existing Banks should take up industrial financing. The Government of India should prevent by legislation a repetition of the previous disasters.

That the Indian Banks have borrowed, copied and translated the chief features of the English Banks is an undisputed fact. They have copied the tendency of the English Banks in having

huge Authorised Capital, a part of which is subscribed and out of which very little is paid-up at the beginning. Like the English Banks, the Indian Banks wish to trade largely on credit. The Government of India have followed the Government of the United Kingdom in their *laissez-faire* policy in the matter of banking business. Imitation for imitation's sake has produced unworthy specimens. The superficial elements alone have been copied while the really vital and progressive features of English Banking have not been engrafted on our system. Banker's Associations, Banker's Institutes and Banker's guilds have not been created on the English model. The Presidency banks were only in a very remote sense the guardians of the whole system. They were not full-fledged Central Banks acknowledging all their responsibilities. The present Imperial Bank of India itself does not possess the traditional glory, respect and power enjoyed by the Bank of England in the London Money Market. There is a noteworthy absence of control either by the Government or by a Banker's Association.

Again a part of the financial system alone has been imitated. The Indian Banks are merely pursuing commercial business. In England besides Banks, there are trustworthy promoters, capable underwriters and issuing houses so that industrial companies derive invaluable aid from

them. It is but natural that the Indian industrialists would look forward to their banks for this kind of business also, owing to the absence of these specialising concerns.

India made an unhappy choice in selecting the English Banking system as her prototype. The progress of Japan has been due to her selecting the salient features of nearly every banking system in the world and engrafting them on her own banking conditions. The specialising tendency visible in the English Banking system is noticeable in Japan. It has imitated the model of the French mortgage Banks, *e.g.*, the Credit Mobilier and the Credit Foncier of France. It has copied the useful branch-bank system. It has borrowed the continental system of close relationship between the small banks and the Central Banks. It committed the mistake of imitating the U. S. A. National Banking system and after a short trial it gave it up for the Central Banking system with the Imperial Bank of Japan as the crowning head of the whole fabric. The whole credit system was thoroughly organised by banking experts borrowed from foreign countries. State help and control enabled the banking system to work well.

The Indian Banking system should be thoroughly overhauled and re-organised on an improved basis. The materials already exist.

The Imperial Bank of India can be utilised as the keystone of the whole arch and the other banking concerns should know definitely their own duties and the help they can expect from this Central Bank. Credit for the rich and the poor and for the big and small industrialists should be created by the existing banking institutions or fresh ones that may arise in the future. The Government of India should see that there is no abuse of the word "bank" as in the past and by restraining legislation, smooth the progress of the banks. An attempt should be made to profit from the experience of the Continental countries by copying all their deserving features. The English banking model is not the best model nor is it suitable to our present needs. Keynes was quite correct when he wrote that England's was the worst currency model that India could imitate. Even in the matter of banking business the Indian people should realise that their salvation lies in selecting the salient features of all banking systems and adopting or adapting as Japan has done.

The existing Indian Banks can be divided into three classes. The Imperial Bank of India, the friend and ally of the Government of India, the foreign banks and the local Indian Banks. The Imperial Bank of India finances the internal trade of India to a great extent by discounting commercial bills. It lends money on raw

produce and imported goods. The Foreign Banks develop Indian trade with their own countries and naturally assist their own countrymen. It is only with their surplus money that they give help to Indian Industries carried on, on a large scale. The local banks slavishly imitate the Presidency Banks and conduct commercial banking business. They lend money on zemindary properties in preference to Indian industrial securities.

Many of these Banks are managed by foreigners who only come into contact "with a few of the aristocracy" and so ordinary traders and small industrialists do not receive much help from them. So they have to pay high rates of interest for any accommodation they may get from the public and sometimes thriving industries suffer from insufficiency of capital. Industrial financing, thus is not on a sound and proper basis.

It is not the financing of Industries alone that is being neglected, but rural trade and credit is not properly designed and the existing banks do not care to change the existing methods of rural credit. It is growing more evident day by day that the present insufficiency and waste involved in our export trade business should be rectified as early as possible. Our export trade is left to the mercy of funds outside the country. As in "capital poor countries" our export trade

is being financed by the importing country to a great extent. The big export and import houses are in the hands of Europeans who employ their agents to collect produce from the interior and send it to the port stations whence they are shipped at their own risk and cost. The agents or *gomusthas* necessarily finance the cultivators from the beginning and the crop is hypothecated to them.

This system of financing our internal trade for exportation purposes is not to our best national interests. The chief harmful result of this process is that the foreign merchant houses are exploiting our agriculture in their own interests. Export of rice and wheat is increasing while their production is not on the increase at all. Cotton and jute cultivation is increasing while food production is not progressing satisfactorily. The production of non-food crops for export purposes is chiefly due to the influence of cash advances of the foreign merchant houses. Thus our economic prosperity is mainly dependent on these firms.

This system of exploiting agriculture in the interests of foreign exporters should be given up. The introduction of co-operative credit societies combined with co-operative sale societies will go a long way in remedying this state of affairs. The question of removing this rapacious middleman requires patient tackling for a long time.

This is so far as rural trade and credit are concerned.

The same is the story with our international trade. The Exchange Banks finance the export trade bills with their funds attracted in London. They rediscount the D/A Bills in the London Money Market or with the Bank of England. The import bills are also financed by the Head office of the Exchange Banks. This is indeed a danger.

Every one of these Banks is the offspring of European countries, Japan or America. They have steadily taken up the financing of our external trade with their countries. They are alive to the interests of their own countries. They display no keen desire to take part in the economic reorganisation of our country. They evidently do not harbour any ambitious national programme for India's uplift. These Banks remain distinctively foreign, much the same as they were at the start. They are more willing to help their own countrymen and trade with European business companies and are not anxious to attract the accounts of small and young firms started by the Indian people. It has been repeated several times by competent men that an Indian firm trading under a European designation, is more fortunate in obtaining accommodation from the existing Banks. These are some of the drawbacks of the existing powerful Banks.

It is indeed high time that our banking system should be re-organised on a healthy basis giving scope for the proper mobilisation of our money. The healthy development of our trade, the careful promotion of our industries, a wise economy of our precious metals and a real increase of our national wealth—these are the problems that a soundly organised Banking system has to solve.

CHAPTER XIV

Banking Reform

1. More Banking Capital

The first striking feature of the Indian money market is the smallness of the banking capital or loanable money. A notable demonstration of this fact is visible every year in the rise of the bank rate during the busy season. As Mr. J. M. Keynes has said, the "average bank rate in India is not high but the maximum figure to which it rises, is a high one"; and this is no doubt a common feature of all countries which finance their trade requirements with borrowed capital obtained from elsewhere notably the London Money Market. More than one financial authority has commented on this shortage of trade capital in India.

Financial facilities are an important desideratum at the present time in our country because a new era is setting in. Capital is required for the financing of new railways, developing forests and constructing public works of a reproductive character. The economic development of our country would be seriously hampered if sufficient capital is not available and the clock

of industrial progress would receive a check and be impeded for a time. The extension and development of the existing industries alone, not to speak of the immense industrial potentialities that exist now in India require a huge amount of capital. In the past decade, there was an appreciable widening of industrial activity in India, and such works as the Tata Iron and Steel Works at Jameshedpur, the starting of Cement works, the working of the hydro-electric machinery in Mysore, Kashmir and Western Ghats, afford an ample demonstration of a new-born industrial activity. Many other projects were under construction and would have been undertaken but the war arrested the industrial movement in our country. The capitalists felt nervous about the future of these new industries and to add to this it was difficult to obtain the skilled and expert mechanics and the needed machinery and plant from Europe.

Fortunately for India and for the British Empire an era of peace has set in. Our minds will now be turned towards industrial development. Already a host of companies have been started in such great profusion that all sober-minded economists are inclined to sound a note of warning at the feverish rate of growth of new companies. "During the 8 months April to November 1919, 535 now companies have been registered with an aggregate authorised capital

of nearly Rs. 166½ (Crores). During the corresponding period of the previous year 153 companies were registered with 63-4 crores of Rupees Capital." They fear that this boom would end in a catastrophe or as the Americans would call a 'shake-out' similar to that which we experienced when the 'Swadeshi wave' swept over the whole country. The bitter experience of these times is fraught with lessons and the *entrepreneurs* are expected to be more careful of the results. Besides conditions have much improved since then and there need be no unnecessary apprehension and unwise expectation that our new-born companies are foredoomed to failure.

The War has revealed to us our own industrial possibilities and the activities of the Munitions Board have manifested to us various sources on which capital can be profitably utilised. A number of new schemes to harness the waterfalls of the Western Ghats are bound to come and it is contemplated that fresh capital would be attracted to extend the present steel works. The smelting of zinc and copper and the production of sulphuric acid on a commercial scale, the treatment of coke bye-products and the production of "heavy" chemicals and aniline dyes on a commercial scale, the manufacture of textile machinery and mill accessories, the building of steam and oil engines, are some of the numerous industrial activities that are

contemplated by organisers of India's Industrial development.

To perform these feats successfully capital is needed. It has been an oft-quoted remark that many of the Joint-Stock companies failed for want of capital at the nick of the time. Thus capital has always been and will be an important consideration for some time to come. The amount of loanable capital[1] that lies at the disposal of our banks, the Imperial Bank, the Exchange Banks and the Indian Joint-Stock Banks put together (as arranged in the following table) falls short of fifty crores of Rupees

INDIAN BANKS.[2]

	1913	1914	1915	1916	1917	1918
Number of Banks	56	56	59	61	55	(Not
Number of branches	(Not	available		..		available)
Capital & Resources	Crores	of Rupees				
(a) Presidency Banks	7	8	7	7	7	7
(b) Exchange Banks (Total Indian Head Office Capital ined)	57	55	55	57	49	54
(c) Indian Joint Stock Banks (Deposits Crores of Rupees)	4	4	5	5	5	(Not available)
(a) Presidency Banks	42	46	43	50	76	60
(b) Exchange Banks Indian deposits only	31	30	34	38	53	62
(c) Indian Joint Stock Banks	24	18	19	26	32	(Not available)

[1] To this must be added the capital of the private bankers who finance trade far and wide. Their Hundis which are only a form of cheques circulate all over the country.

[2] Mr. G. F. Shirras, "Indian Finance and Banking," pp. 339.

On December 31, 1919, the total resources of the Joint-Stock Banks of England and Wales were about 2,500*l* million. Of these vast resources, 1742*l* million, say 76% were held by five great banks.

There is on the other hand a growing and expanding population which now numbers 315 millions. The amount of our exports and imports has been daily increasing and referring to latest figures one finds that imports during the first nine months of the year April to December, 1919, were 16 crores or 13% up as compared with the same period of the previous year and exports increased by 53 crores of Rupees or 28% increase than during the corresponding period of the previous year.[1] Mr. E. N. Cook, C. I. E., of the Finance Department has said that "the internal trade is certainly fifteen times larger than the external trade."[2] It would be very difficult, nay impossible to finance this huge export trade without increase in our trade capital. It is a well known fact that many metropolitan banks of London possess more capital than all the Indian Banks put together as shown in the following table.

[1] Financial Statement March lst, 1920.

[2] Sir H. Babington Smith's Committee Minority Report, p. 45.

(In Millions Sterling.)

Name of the Bank.	Capital and Reserve.	Deposits (including undivided profits).
Barclays	158	2961
Lloyds	191	3259
London Westminster and Parrs'.	173	3058
London Joint City and Midland.	168	3730
National Provincial and Union.	150	2524
	840	15532

So the outstanding fact is the smallness of capital and the size of our banks. A signal proof of this phenomenon has been demonstrated recently in connection with the proposal for amalgamation of a Metropolitan Bank of London, namely the Lloyd's Bank with an Exchange Bank of India, *viz* ., the National Bank of India. The Secretary of State for India viewed the proposal with serious apprehension and declined to permit it to obtain a footing in the Indian Money Market. His main fear was that the existing Presidency Banks would be reduced to second-rate pawn shops when compared with the mammoth size of the proposed giant amalgamation. Again the financial dumping by such great foreign banks would perpetuate the existing economic bondage of India and place grave obstacles in the path of Indian banks. Sir Norcot Warren while placing the scheme of

amalgamation of the Presidency Banks before the shareholders' of the Bank of Bengal has openly confessed this weakness of our Banking system.

The proposed amalgamation he says means "added strength" and "more capital" to our banking system.

What is wanted is that more loanable money should be at the disposal of the banks. Many an authority has harped on this point and they desire that there should be more banking facilities and the indefatigable Mr. Webb of Karachi has truly voiced the situation when he said that "India needs more banks manned by *Indian men* and furnished with *Indian Capital.*"

2. "*The Banking Habit.*"

The second noticeable feature is that Indians have not as yet acquired the 'banking habit.' The Indian people require education in the economical use of gold they possess. They must bear in mind the advice of Adam Smith that "coinage is unproductive capital, it does nothing but pass from hand to hand and is not put to any useful purpose whatsoever."[1] They should also realise that the melting of sovereigns and converting them into ornaments make capital unproductive.

[1] Adam Smith, "Wealth of Nations."

As Sir Daniel Hamilton has said "the Gold Sovereign is a cheque drawn on Europe" and there is no use of hoarding it or locking it up in the family vaults for safety's sake. They should feel that hoarded wealth does not increase their economic well-being. They should be aware of the fact that locked-up wealth is not capital at all.

One of the chief causes hindering the growth of capital in India, has been said to be the 'hoarding habit' that prevails among the majority of the people. One school of thought points out that India can never accumulate an appreciable amount of capital because of her hoarding habit. India has been designated by some historians as the "land of fabulous hoards." One Economist calls India "a sink of precious metals." There are others who speak of 'vast hoards' which exist in India. Mr. H. D. MacLeod was the first economist who started the theory of hoards and ever since that time, the problem of hoarding in India has become almost classical. MacLeod, estimates the amount of Indian hoards at £300 millions. Lord Curzon in his speech at the Bengal Chamber of Commerce Jubilee in the year 1903, stated that he had seen calculations to the effect that "the whole hoarded wealth of India amounted to over 825 crores of Rupees." He remarked that these figures approximated to the truth. Says Lord

Curzon " think of all this money lying idle or at most put out for usury or relatively unproductive forms of investment. It makes one almost shudder to think that the opportunity is lost for investment." Mr. Arnold Wright in the Financial Review of Reviews, Dec. 1916, estimated the amount of hoards at 700£ millions.

Opposed to this school of thought there is the popular school which attributes the shortage of capital to the annual drain of money by way of the Home charges *i.e.*, interest, profits on borrowed capital and pensions. This school emphatically denies that these annual drains leave capital to accumulate in India. As Dr. Marshall would say capital can grow from the surplus of national income over national expenditure or in other words Net National dividend. Any untoward cause which decreases the national income contributes towards the decrease of the national dividend. The annual drain reduces the National income considerably and hence the national dividend is correspondingly reduced. There is no legitimate ground for grievance so far as the Home charges are direct payment for services rendered to India. But an appreciable amount goes away from our country as profits of industries managed and financed by Europeans in India. Here is the legitimate ground for complaint. The first and foremost duty is to stop this invisible drain or 'invisible

export' as it is styled by ensuring a rapid growth of capital in India. It has been rumoured and stated already that a large amount of capital is going to be imported from America and that an American millionaire intends taking up a large concern.[1] This fact is a proof that there is a great future before us for the development of our raw materials and natural resources. It is the paramount duty of every man in India who can save from his income to rid her of the domination of foreign capital. It is his sacred duty to relieve her from her unfortunate economic bondage and gradually obtain control of all the vital industries in our country. He should realise the truth of Lord Curzon's statement that a "country is in the strongest position whose capital is self-generated and self-employed."

Coming to the question of our hoards it is hard to reconcile certain economic facts with the statement that India has 'fabulous hoards.' The first statement which gives lie to the theory of hoards is the extreme poverty of the people and the very low standard of living that is implied by it. There is no appreciable margin in the income of the people, to allow them to accumulate these 'huge hoards.' It may undoubtedly be true, that small amounts may be saved but these small amounts can never be styled

[1] In connection with the development of Engineering business on the Howrah side of Calcutta.

'fabulous hoards.' The frequent occurrence of famines dissipates these small amounts into thin air and it is really as a sort of protection against these famines and pestilences that these people do lay by something.

The second fact that demolishes the theory of hoards is the appalling indebtedness of our peasantry which has been estimated at £250 millions. Such a vast amount of rural indebtedness and its chronic universality can hardly be squared with the theory of huge hoards. That there is a considerable accumulation of precious metals in the shape of ornaments is an undoubted fact and every year there is fresh accretion to it. "Money lies dormant in endless small hoards."[1] It is a well-known fact that during the war many people have prospered and the present company promotion at such a reckless fashion would not have taken place, if capital had not accumulated in the past. Some of the agriculturists who have made profits are not likely to invest them in industries.

Banking facilities do not exist at all for these people[2] and the Co-operative Credit movement

[1] Sir D. M. Dalal "Minority Report," H. B. Smiths Committee.

[2] Every man acts as his own banker. The general tendency in the interior of the country is to hang the savings in the shape of investments in jewellery on the body of his wife. Thus his wife is his bank and so long as this is the general tendency the banking habit cannot be created. It is to counteract this tendency that new Banks or branches of existing banks should be started in the interior of the country.

is still in its infancy. Although the Savings Bank department of the Post Office exists in small places it is resorted to by the middle class people. A close scrutiny of the list of depositors reveals to us that hardly 10% of them are agriculturists and it is a pity that the Indian peasant does not understand the way in which he has to deal with the bank. His ignorance and illiteracy stands in the way and diminishes the popularity of the pass-book. Education alone is the true remedy.

The agriculturists and the small traders should be taught that a bank affords the best store of value. Those even who do know the advantages of a banking account, do not come forward frequently to the bank to carry on their transactions. These do not possess confidence in the financial stability of the banking institutions and when once they have witnessed the "mushroom banks" disappearing as fast as they have sprung up they are all the more reluctant to trust them.

Thus capital in the moffusil is totally unorganised and the transfer of money is purely a personal transaction between the payer and the recipient. In Europe branches of banks are established in small places and the branch bank is made to open its door once or twice a week in order to transact business. But such is not the case with our Indian Banks.

Again, the habit of hoarding is said to have been revived at the outbreak of the war. The tremendous rush of our depositors on the post-office Savings Bank early in the beginning of the Great war has been attributed to this tendency. There was also a slight run on the banks. The alternately swaying fortunes of the belligerents on the battlefield have only confirmed this sad tendency on the part of the people.

To add to this, the official restrictions impeding the free importation of precious metals on behalf of private people into our country have had something to do with this and in fact have gone a great way to encourage the people to hoard their slender stock of precious metals. The wealthy people prefer investments which pay much more than the banks can hope to pay. Investments in land by purchase or mortgage still appeal to the majority of the people who can afford them and the investment of money in Government paper exercises a strange fascination on the minds of various classes of people. As yet 'the banking habit' has not been deeply implanted in the minds of the people and until the people realise the importance of this habit the day of our economic salvation far off.

It is highly imperative on the part of the Indian people to realise the fact that the Bank is not a mere ordinary joint-stock company to

obtain profits but it has to perform the supreme duty of "trusteeship of the nation's material future" and that in its hand lies "the fate of the industrial organisation of the country."

It is not only the people that will have to realise this fact but the existing Banks themselves must feel the weight of this heavy responsibility and conduct the banking business on safe and sound lines and afford the needed accommodation to our rising industries. These banks should get over the belief that they are mere dividend-paying machines. It must be instilled into their minds that they are the mainspring of the country's monetary mechanism.

In England it has been said that every man has his own solicitor and his own bank. Although India is rapidly attaining the first part of the ideal much to her own detriment, she has not copied the more paying and useful habit, namely, each man having his own bank.

Another cardinal reason for the marked absence of the 'banking habit' on the part of the Indian people is that very few of them are aware of the manifold advantages that result out of a "banking account." The most prominent of them are the following. The customer is relieved of the risk and trouble of keeping large stocks of precious metals (gold and silver coins) in his house for making his payments and in addition to security the customer derives interest for

the sums he loans to the banker. The customer can make his numerous payments by means of cheques and these can be produced at any time, should proof of payment be demanded. The customer is saved the trouble of counting out money. All funds owing to him are collected by the bank. If the customer is a trader he can obtain money by discounting his bills at the bank, *i e.*, obtain ready money for them. The customer can overdraw his account up to a certain figure which is stipulated generally at the opening time of the account on the strength of security he has to place. The customer can obtain information as to the standing of other customers. His pass-book furnishes the best possible means of giving a ready reference as to his financial stability. These are some of the manifold advantages that can be reaped out of a banking account and an alliance with a bank.

Just as the principle of thrift is inculcated to school children so as to make them thrifty men, so also should the principles of a banking account and the way of opening an account and subsequent dealings with bank, might with advantage be taught on the impressionable minds of school-children so that the latter might profit themselves in their mature age. Again it should be a systematic policy on the part of the educational authorities to teach the elementary principles of Economics in the Secondary schools

and much time should be devoted to the familiarising of these youths with the methods of banking and the acquainting of them with the advantages of banking account. As Mr. Vidyasagar Pandya has suggested small penny banks may be attached to certain schools as in England so that practical thrift may be encouraged.

Many of the English joint-stock Banks issue small "touting circulars" explaining to people what foreign exchange is and how it is conducted by it. A similar device should be adopted in a backward country like India. Vernacular circulars can be issued by each bank stating the principles of banking, the advantages of a banking account and the bank's own progress from year to year. These will convince the people as to the utility of the banking institutions.

3. *A Branch Bank System.*

Coming to the third feature of Indian banking one is surprised at the paucity of the banking institutions when compared with the extent of territory and the total population to whose needs they minister. The following table gives the comparative strength of the banking institutions of the different countries of the world.

Number of banks in certain countries. Capital Deposits and Foreign Trade.

	India.	United Kingdom.	U.S.A.	Canada.	Australia.	Japan.
Number of Banks	55	54	28,913	21	24	2,143
Branches	304	9,303		3,306	2,332	3,731
Capital	23	88	482	23	35	65
Deposits	118	2,335	5,767	324	316	494
Deposits per head	£0-7-0	£52	£55	£46	£63	£8
Foreign Trade ..	25	1,849	1,886	416	174	188
Deposits per £100 of Trade	£46	£126	£306	£78	£182	£215

This table is taken from Mr. G. F. Shirras' "Indian Finance and Banking," p. 340.

The Marwari bankers and other indigenous 'confreres' of his, carry on a lot of banking business but no statistical information can be obtained as to the number of their agencies and branches. Making due allowance for these one does not find that branch banking has progressed very favourably in India.

It has been estimated that no less than 9,357 banking offices exist in the United Kingdom and when one finds that India is nearly fifteen times greater in area and seven times larger in matter of population than the United Kingdom, one notes that it is seriously undermanned in respect of her banking institutions.

In Scotland it has been said that "every village has its own bank" and MacLeod says "what Nile is to Egypt so is the banking system to Scotland." Happy would be the day when each big Indian village would be in a position to boast of its own humble banking establishment. At present many a town[1] with a population of 20,000 to 40,000 people goes without even a branch bank; whereas it has been remarked that in England "every town with a population of 20,000 people has been overbanked" and in many places the starting of a branch bank is viewed with apprehension and every attempt on their part to tout for business is deprecated.

Unfortunately the case is not so with India. In the first place there are not many strong banks doing banking business on sound and conservative lines. The Imperial Bank of India and the Exchange Banks excepted, the rest of the banks, with the notable exception of the Allahabad Bank and the Alliance Bank of Simla, are all new-born institutions and the banking crisis of 1913-15 has undoubtedly weeded away the speculative and the less stable of the Indian Joint-Stock Banks. The rest of the banks are labouring under the difficult and slow process

[1] Only 165 Towns have Banks or branches of Banks established in their area. Ultimately the Government of India look forward to the establishment of a branch of the Imperial Bank in every District and every town of importance. Roughly speaking there is one banking office for every 900,000 persons in India.

of building up their business but it is manifest that the existing number of banking offices are totally inadequate to meet our growing needs. As the Indian Industrial Commission has said "banking facilities are surely non-existent to the major part of our population."

The branch bank system should have a firm footing in our country. The starting of new local banks is a difficult affair and whatever might be said in favour of independent local banks, the verdict of experience specially in the United Kingdom, Canada and Scotland has gone against it and the branch bank system has come into vogue.

Quite a large number of writers on the topic of banking have written on the advantages of the branch-bank system. The opening of branch banks in India will afford an outlet for surplus capital. They afford facilities for transmission of money from one district to another. These branches will conduce to a proper distribution of capital from one place to another according to the relative needs of the different sections of the community. The small trader might be educated as to the advantages of having a banking account. The branches will afford the best possible professional training ground for young people desirous of a new career. Expenses of management can be economised. The branches all over the country would lead to a lowering

and steadying of the rate of interest to a great extent. It will lead to an increase of loanable funds. The various branches will give ample facilities for gaining information of the state of customers and as to the nature of their work. The branch bank system may be extended to places too small to support a regular bank which requires a full complement of officers and reserve of coin.

But there are some disadvantages of the branch bank system and each branch is a source of weakness and loss as one branch may lead to a run on the whole establishment of which the branch is only a part. The branches may tend to rival the older establishments of the place and this rivalry may lead to the lowering of the banking standards. There may be a falling off in the nature of securities against which banking accommodation is sought and overbranching may lead to overbanking and the extreme rigour of modern competition will force the numerous branches to tout for unsafe and risky business. An undue and disproportionate multiplicity of banks will be co-existent with a tendency to indifferent banking finance. The disappearance of the local independent bank means the elimination of the personal element in bank credit and this may mean great inconvenience to some of the traders. Too many of the branches and all of them working under rule of thumb

methods will tend to stifle intelligence and the branch bank system might tend to remove superfluous capital from provinces into the metropolis and thus the provinces might view the draining away of money with disfavour.

Many of the abovementioned disadvantages are not inherent in the branch bank system nor are they the inevitable concomitants of it. Most of them can be eliminated by instituting a system of effective audit and insisting upon "weekly reports" of business from the heads of the branches to the head office and there should be a clever training imparted to these officers first at the head office, before they are sent as heads of branches. An efficient peripatetic supervision[1] by the manager of the head office, would obviate many of the defects. Some of the directors should make unexpected visits at the branch offices to see the way the business is conducted. Rivalry with the existing banks and cutting down rates to absorb the customers of the older banks of the place would tend to attract bad and doubtful accounts in the first place and the branch would be a refuge for the destitute. But almost all the above precautions can be easily taken and many of the disadvantages can be eliminated

[1] There should be a Chief Inspector for each large bank and Branch Inspectors who must issue 'confidential' reports to the Chief Inspector as to the state of banking business conducted by the branches.

and the advantages far outweigh the disadvantages. The customers of the banks reap many advantages in remitting their money from place to place. A new branch may mean extension of business and the establishment of several such branches in the interior of the country means an increase in the deposits and an appreciable diminution in the monetary circulation of the country. Many are the other small advantages that accrue to the customers.

Alexander Hamilton has been credited with the honour of being the father of this branch-bank system. Canada took it up. Both in Australia and Japan there is a highly developed system of branch banking. The evolutional development of international banking and the branch system gradually dispense with the services of the intermediaries and make for greater and all-round financial strength, efficiency and responsibility.

India ought to learn and profit by examples set by the other countries. All the sound banks which have been doing business on conservative lines should be made to extend their branches into the interior and they should establish a network of banking establishments which should serve as connecting links between the various parts of the country.

But Sir Bernard Hunter, one of the Governors of the Imperial Bank of India, has said that

the opening of branches in India means an expensive affair and that the business is all one-sided. For customers unfortunately come in not to deposit their savings but for loans, and each new branch means more business for the bank. Thus the branches are not a source of strength to the banks obtaining deposits from the interior but they strain the resources of the head office in trying to make loans to customers and so it is alleged that "the business is all one-sided." As for the question of expense, it is true a new branch takes some time to pay its way but the Imperial Bank should not murmur on this score because the expense would be quite insignificant when compared with the profits they can make with the Government deposits that will come into its vaults.[1] So an extension of branches of these banks would be paying and this would mean much convenience to the Government and the customers.

But a far greater number than the promised hundred are required. They are the only sound banks that have been doing business for a long time and they have gathered much experience in the course of their business and it is safer to trust them to educate the people in banking habits

[1] It must not be ignored that Government deposits at branches are held literally at call. But the dignified position of being the bankers to the Government would cover them with a halo of glory, splendour and prestige and private deposits would consequently flow into the Bank of their own accord.

than other banks. It has often, been said that new banks should be started but there is a real difficulty. New banks, if they are established should be made to do business on orthodox lines and it is true that the state of the Indian money-market is not overcrowded with banking institutions and hence a few more new banking concerns can safely be launched. But when we consider the lack of trained bank managers in India it would be difficult to obtain suitable men to work the several banks. It is only the European that has taken up the banking business as his vocation and few Indians aspire to have a successful banking career. Unfortunately for India, there are not too many Pochkhanawalas but only a single individual and a few others of equal calibre. India has already learnt a severe lesson by entrusting its banking business to men of mediocre capacity and the banking crisis of 1913-15 may prevent a repetition of such sad experiments.

In short the crux of the situation lies in the attraction of more capital to the vaults of the banks. This the existing banks can do by increasing their authorised capital by legislation. Banking business is purely a business of confidence and it is easier to put more trust therefore in the banks already trusted and any expansion on the part of the old and well-tried banks should be a more welcome feature rather

than the starting of entirely new banks which have to go through the laborious process of building up business and gaining public confidence.

A branch of an existing bank would do the same thing for the community in the matter of tapping capitalists for deposits and it is far more economical, far safer and far more conservative than any new banks whose integrity has not been proved as yet, whose stability has not been put to the test and whose solidity is still a matter of question.

The next phase of development in the banking business in our country would be the opening up of the country by means of a well-devised system of branches strategically situated so as to tap the deposits of the people and minister to the economic needs of the community wisely and beneficially. It is true that there is a lot of untrodden territory for these new banks to explore. There is a vast area of virgin soil for these new branches to occupy and to till. The banking crop has not been gathered as yet in India and it would pay handsome dividends to the pioneers of banking enterprise in the interior of the country where towns are slowly springing up.

It would not be out of place to repeat once more that this business should be taken up by the old existing banks. The old banks have

grown grey in the service of the country and they have experienced severe chills and unclement buffettings now and then and they have borne the scrutinising tests of time and change and they have all emerged unscathed from many a crisis. They have come out purified and strengthened by the ordeal and it is these banks that have stood the vicissitudes of time and that have learnt their business already that should be encouraged to start new branches rather than start new institutions which have to gain, "their footing." They will be subject to all the ills of infant banking and India can ill afford to lose the little capital she possesses. The banking crisis of 1913-15 has cost India nearly 34% of her banking capital and it would be folly to tread the old path again by creating new banks entrusting our capital to untried hands. To sum up what is wanted is an extension of old and well-tried banking institutions in our country but not new bogus companies which sail well on smooth waters but sink on a stormy day.

4. The Training of Bank employees should be taken up.

Another noticeable feature of Indian banking is the one already incidentally mentioned. It is the lack of trained banking managers. The recent widespread failure of the Indian

Joint-Stock Banks was solely due to the lack of these trained people and no competent managers having complete knowledge of banking theory and an adequate amount of practical experience were forthcoming and even now there are but few educated men who have been trained specially for the banking work.

The Indian Industrial Commission observes that "there is a lack of trained bank employees owing to the absence in the past of facilities for commercial education and of any regular system, of training Indians in banking work, while the country folk are not alive as to the advantages of organised banking." The growth of banking business in the moffusil has been impeded by the paucity of such men.

The Lahore Committee appointed to enquire into the causes of bank failures in the Punjab, by the Punjab Provincial Advisory Committee to the Indian Industrial Commission says that there is strong need of promoting a knowledge of banking systems among the people and it emphasises the necessity of training people in banking work.

Pandit Madan Mohan Malavaiya says that the Government of India should take definite steps to impart the best instruction to young Indians in banking through the best teachers it can appoint." Again while arguing for a State Bank he said that one of the advantages

of a State Bank would be the providing of facilities for training Indians in banking work.

Pandit Malavaiya instances the history of Japanese banking and points out that the marvellous development of banking in Japan was due to the training of its people in the banking business. He writes that "at the time of Restoration in 1868 there was a complete ignorance of the methods of finance or of banking or of Joint-Stock Companies." There was some kind of financial machinery but "National economy and finance were both in a perilous condition" and in order to remedy this Prince Ito was sent to America to study the working of their financial institutions. On his recommendation National Banks were organised and the Imperial Bank of Japan was next established as a Central Bank and at the present day there are separate banking institutions to deal with Home trade, Foreign trade, Industry and Commerce and Agriculture and Colonisation, each specialising in its own line of business. The following passage is worthy of quotation. Baron Shibusava, the President of the first National Bank, writes in the conclusion on the chapter on Banking in Japan as follows. "Before concluding this essay the writer cannot refrain from expressing his profound satisfaction at the fact that the small spring of banking business, which had been so insignificant at the time of the Restoration, has,

by a gradual process of accretion, become a broad, navigable river, as it is now, and his conviction is that this is the result of having followed the example of European and American Nations, to which the Japanese are much indebted. Again the Japanese are very grateful for the valuable services of Mr. Alexander Allan Shand, now a director of the Paris Bank, London, who came to Japan at the invitation of the Issue Department in 1872, acted as adviser in Banking to that department, wrote valuable books on banking, instructed young Japanese in that line and thus paved the way for the development of banking business in the country" (Count Okuma's Book—Fifty years of Japan—Vol. I, p. 532).

Thus the prime requisite for possessing a good banking system is to have a number of persons who have had a good grounding in the theory of banking with a fair amount of practical knowledge in some of the different systems of banking in foreign countries. Mr. G. F. Shirras writes that "just as trained teachers are of the first importance to Indian Education at the present time, so are trained officers in sufficient numbers to Indian Banking."[1] At another place he says "without trained leaders the banking army will never win a victory and we shall have to depend almost entirely on that hard-working body of

[1] G. F. Shirras, "Indian Finance and Banking," p. 432.

men who bring to the East the banking wisdom of the West." He recommends that "our universities and colleges working in greater co-operation with banks should do more than they have done in the past."[1]

Even in the United kingdom the heads of the great banking establishments are not satisfied with the quality of men that is being attracted to the bank's doors. True there is a banking career existing there but even there attempts are being made to attract the best possible men to the banking business. As Mr. Walter Leaf said "the banking career must be placed in a light as to be on a par with the most lucrative professions existing now."[2]

The late Lord Faber, the president of the Country Banker's Association in the United Kingdom, said that "the banking career should be placed on a footing by which it will compare favourably with any of the learned or professional carrers in the country" and suggested that "youths already in the banking service should be given scholarships to enable them to take a full three years' University course in Commerce as a part of their career."

While presiding over the annual dinner given by the Institute of Bankers, London, he said 'I

[1] G. F. Shirras, "Indian Finance and Banking," p. 420.

[2] Mr. Walter Leaf's Presidential speech at the annual meeting of the Parr's Bank.

had a visit two days ago from a leading banker—the first or second banker in the whole of the United States—who was good enough to pay me a visit and I asked him how they got the best class of men for their clerks. I told him we were all after the best material we could get and I asked him what they did in America. He told me that they went to the public schools of New York every year and they asked the Head Master to point out about twenty of the best scholars who were leaving those schools that year. When they got the names of the boys, they went to them and asked "would you like to come to our banks as clerks? If you care to try banking we will send you to one of the big commercial colleges; they call them Universities in America. We will send you twenty boys there, we will pay £120 a year, for each of you and you shall study there for two years. We shall then take a report of you from the heads of these colleges and we shall be guided by the report. If we like the whole twenty of you, we shall offer you places in our banks. If you do not care to come no harm will have been done because you will have got your education free."[1] This seems to be a wise course and though expensive, it will pay in the long run. In future when increasing attention is to be paid as to the

[1] Journal of the Institute of Bankers, Jan. to June No..........1919. Lord Faber's Presidential speech.

'Indianisation of higher Government services' the banking offices should not forget that their Indian element should be increased and the right sort of people attracted to this line.

Again it should be remembered that the "English banker in India is not always all that can be desired of a banker."[1] 'He is lacking as much as the Indian Banker in that superior realisation of the nature and object of banking. It is an open secret in the money market how sometimes X the Manager of the Bank A speculates in the name of his personal assistant in the shares of the company and how Y the Secretary of the Bank B gambles in Cotton. That neither X or Y is easily found out speaks indeed, highly for the perfection of his education in so conducting its operations as to leave hardly any evidence that could be accepted in a court of law." Such sort of men cannot be the requisite models for our Indian banking officers to copy.

So, when we find, that even the European Banker in India, is not the ideal banker, we should lose no time in preparing and training men of our own country. The sooner we rectify this defect, the easier will be the task of obtaining for India a financial ascendancy to which she is entitled by virtue of her natural resources and great financial strength.

[1] Tannan & Shah, "Indian Currency and Banking Problems," p. 241.

5. *A Banker's Association.*

The next point that attracts attention is the lack of a Banker's Association. There is no common platform or meeting ground for all the bankers, the old and new, the foreign and the 'swadeshi,' the expert and the amateur to come into contact with one another. The Exchange Banks have one association to discuss problems affecting their common interests and they seldom fail to make use of their combined strength whenever opportunity affords itself. The Presidency Banks act as the Clearing House Banker and they keep the banker's balances. Though they have become 'the residuary trustees' of our banking system, yet they do not acknowledge the responsibility nor are they strong enough to support the whole burden. The amalgamation of the three Presidency Banks has improved the situation to a great extent but what is needed is that there should be a special bank which should act as the National Bank keeping our National Reserve and guarding it carefully. It should also lend a helping hand to struggling banks now and then provided they are doing sound business. The Banking crisis of 1913-15 has revealed to us the deplorable condition to which sound banks like the Panjab National Bank and the People's Bank, Lahore, were reduced on account of lack of rediscount facilities. They

committed the fault of locking-up their money on long-dated securities and they were not able to meet the claims of their depositors, and even when Government securities were offered, the Presidency Bank of Bengal ignored the recommendations of its Lahore Branch and this precipitated the failure.

Thus the lack of an institution which is the acknowledged head of the Banking system (a responsible shepherd for the numerous sheep) led to serious difficulty in the past. This has to be removed as early as possible. The cardinal fact that the aforesaid Lahore Committee brings forth regarding the failures of banks in the Panjab is that " there has been no association of bankers to look after the general policy of banking development as a whole nor to instruct the banks in the proper path " just as the Banker's Institute in England or the Banker's Association in London. Both the Banker's Association of London and the Institute of Bankers of the United Kingdom publish admirable magazines on banking topics. The above association, *i.e.*, the Institute of Bankers, holds periodical examinations for certifying youngsters as bank clerks and its certificate is considered as a necessary passport for higher appointments in banking institutions. In Germany, there is a " central Federation of Banks and Bankers " to discuss banking topics. In America there is

every year "the Annual Convention of the American Banker's Association" and all interesting developments and new departures in banking methods are keenly discussed.

It need not be said that such a responsible body does not exist in India. It is true that the various Chambers of Commerce hold examinations in banking and the Commercial College diplomas are the only existing passports to enter any banking offices. But the young men, who wish to take up banking as their career should be taught in regular colleges where experts in practical banking and in the theory of banking should teach, and it is these graduates of Commercial Colleges that should be sent to foreign countries for the purpose of further training and observation of foreign banking methods.

It is highly imperative that a banker's association should be formed including all the bank managers and the prominent officials of the big banks. It should meet once in a quarter of an year at least so that it may afford scope for the free interchange of knowledge on matters that concern them all and such procedure will not fail to benefit all the banks individually and Indian Banking as a whole. This Association should undertake the dissemination of sound ideas, the suggestion of useful reforms and the spread of profitable knowledge and should serve.

as an educational force at work among the bank employees.

This association should undertake to organise a course of lectures corresponding to the 'Gilbert Lectures' of the Banker's Institute (United Kingdom) to tackle with problems of Indian banking and deliver interesting and useful lectures to enable banking clerks to grasp the theory and practice of banking.

This Association should have a monthly or quarterly magazine of its own entitled "Indian Banking" where all the recent improvements of foreign methods in banking business and their applicability to Indian banking conditions should be discussed. This would be the best practicable measure that can be undertaken now to improve the wisdom and knowledge of bank officials.

The creation of such an association leads to unity of policy and prevalence of a common sentiment among the several banks.

6. *The development of the existing Clearing House System.*

Again the Clearing House System that exists in India does business on the model of the English Clearing Houses. It has not copied the model of the American Clearing House. The English Clearing House may be defined as a device to simplify and facilitate the daily

exchanges of items and settlements of balances among the banks. The Clearing Houses in America not only perform these functions but act as a medium for united action upon all questions affecting their mutual welfare.

In America some of the following important functions are preformed by the Clearing Houses. They take up the question of extending loans to Government and they fix the minimum rates of interest on deposits to be paid by the banks. They fix uniform rates of exchange and charges of of collections. They hold an independent system of bank examinations. They issue Clearing House Loan certificates to those banks which do sound business on good assets and on the strength of these Clearing House Loan certificates the banks can borrow. It was by means of the Clearing House device that the American National Banking system tried to remedy the defects that were created by the absence of a Central Bank. The Federal Reserve system now has been introduced and the Federal Reserve Banks now take up the important duty of acting as pilots and on them falls the task of steering clear of all difficulties and the successful way in which they checked the speculative orgy in last November in Wall Street is a convincing proof that they realise their onerous duties.

On the European Continent, the Clearing House System has recently been imported and

it does not play such an important part because all the countries possess a centralised banking system. The central Banks do a large business in current accounts and the transfers and remittances of funds are accomplished largely by cancellations through book-entry.

Unfortunately for us, we have neither a responsible central Bank nor an efficient, enterprising and go-ahead Clearing House system as they have in America. Even the amalgamation of the three Presidency Banks would do very little to alleviate such a distressing situation as the Banking crisis of 1913-15 unless and until they openly acknowledge to shoulder the responsibility of coming to the aid of their helpless brethren in case of need. They should throw open the rediscount facilities to all the important Banks and the privilege of being on the rediscount list would be almost as much coveted as the privilege of being member of the Clearing House and the Imperial Bank should scrutinise the position of all the members on the rediscount list now and again and weed out all unsound concerns from its list. This itself acts as a most salutary check for the ordinary Joint-Stock Banks to conduct their discount business on scrupulously clean lines and helps to improve the standard of banking in our country.

Such an extension of privileges would lead to closer co-operation between the Indian Joint-Stock

Banks and the Imperial Bank and when once they reap the fruits of a policy of co-operation and co-ordination they would never give it up. It would be an admirable instance of the well-known adage "United we stand, divided we fall."

Again, the rediscount facilities not only tend to improve the banking standard but only by the extension of this privilege can the Imperial Bank extend accommodation to the growing needs of traders in India. A trader's bill bearing only one signature or a 'single name paper' as it is called is never discounted by the Central Banks. The Bank of France often requires "three names" and the Indian Bank Charter Act of 1876 requires the Presidency Banks to discount 'double-name' paper. Hence there should be an intermediary to enable the trader to obtain the needed accommodation and there would be no greater and more secure intermediary than a Joint-Stock Bank and so the ordinary Joint-Stock Banks can act as the best intermediaries for the purpose of discounting and it is only through these banks that accommodation will reach the great mass of traders.

Another grave reason, why the rediscounting of bills should always be an important feature in the case of our Indian Joint-Stock Banks, is that these do not generally possess ample financial

resources. They do not attract much of deposit money. As such there is no reason why the Banks should be hindered from supplementing their resources by having access to the Central Bank. It should be a legitimate branch of their business and so long as the Indian Joint-Stock Banks do not maintain a ridiculously small reserve simply because they can increase their capital by rediscounting the bills easily, there is nothing opposed to sound principles.

7. *The Co-operation of banking and note-issuing functions.*

Another noticeable feature of our banking system is the divorce of the note-issuing function from the banking function. It is true that in many countries the 'Banks of deposit' do not issue notes. But the central Bank is both a 'Bank of Issue' and a 'bank of deposit.' Thus all 'Banks of Issue' happen to be 'Banks of deposit' but not all 'Banks of deposit' had the coveted privilege of issuing notes before the year 1861 when the Government of India took the note-issue into its own hands. When the banks had the privilege of circulating notes, they did not succeed in issuing a considerable amount of notes to the people. The restricted circulation was solely attributable to the following facts. These notes were not legal tender. The public

had no faith in the financial stability of these banking institutions and the first banking crisis of the years 1829-32 swept away many of the Agency Houses which conducted banking business and in 1840 the Indigo Houses also collapsed involving the failure of the Union Bank. Naturally, the people were chary in reposing confidence in the surviving institutions. Again the habit of the people was to circulate metallic coins and they had a passionate liking for the metallic ringing of these coins and hence the notes could make no headway against the current of popular disfavour. Besides, these difficulties, the Banks were hedged in by legal restrictions, *i. e.*, the notes could not be issued beyond an amount which is 3 or 4 times its cash reserve. Labouring under these difficulties, the early note circulation was not an appreciable one and there is no wonder that they failed to win popularity as a medium of exchange.

The Hon'ble Mr. James Wilson who was brought out to India to reorganise the finances of the East India Company which fell into disorder on account of the Great Sepoy Mutiny of 1857, recognised these difficulties and at once planned a scheme for the substitution of Government notes in place of the bank notes. The year 1861 inaugurated the new era of Government convertible notes or 'Paper Currency' as it has been styled but a fatal mistake was

committed in accepting the 1844 Bank Charter Act of England as the only sound principle of regulating note-issue and this was done in spite of the vehement demonstrances of the worthy originator of the scheme. (Hon'ble Mr. James Wilson). From the year 1861, the Government notes have come from the Paper Currency department and all the banks including the Presidency Banks have been forbidden to issue notes. Thus in India, we find all the banks are "banks of deposit" only.

In England we find all the Joint-Stock Banks which existed before 1844 were given the right of issuing notes up to a certain limit; but as a matter of practice these banks do not make full use of this privilege and the Bank of England is given the sole right of issuing notes in England, but the issuing department has been separated from the banking department and similar results have been reaped in both cases. The currency system was rendered in-elastic and whenever more currency is wanted in times of "moving" the crops or during the abnormal times of a crisis, the currency pinch is acutely felt. The Bank of England supplies "emergency currency" by expanding its book entries for other banks and these which treat "cash in the Bank of England as equivalent to cash Reserves" as soon as their cash at the Bank of England increases, supply the needed

accommodation but during abnormal times the suspension of 1844 Bank Charter Act has been unavoidable. It would have been removed out of the Statute Book long ago, had not the English nation hit upon the admirable cheque system which has bestowed the needed elasticity to her currency system.

Unfortunately for India, the inelasticity of her currency system has become a permanent feature and no such palliative as an efficient cheque currency has become popular and to add to this the Independent Treasury system aggravates the whole situation. The Government sweeps away millions of Rupees, in the busy season into its own coffers, just at a time, when they are solely needed by a stringent money market and to add to this "the Government maintains a policy of traditional aloofness from the money market." All these causes have intensified the need for securing more cash during the busy season and various remedies have been proposed. The issuing of inconvertible notes during the busy season, the giving out of loans from the Government balances of the Paper Currency Reserve or the privilege of access to the London Money Market to enable the Presidency Banks to obtain more funds or the increase of the working capital of the Banks have been severally proposed but these are mere palliatives, but not permanent and efficacious remedies.

The first thing required is that the banking function should be co-ordinated with the note-issuing function, just as one finds in France. It should be entrusted to a State Bank. The days of decentralised note-issuing have passed away and as such the privilege of note-issue should be entrusted to a central bank (as the question of state Bank has been negatived in our country) that is to arise out of the combination of the three Presidency Banks. Note-issuing is not to be handed over to the Imperial Bank on account of the present highly inflated state of it. But as time progresses the Imperial Bank should arrive at a definite understanding with the Government as to the duties it has to perform and the note-issue should be handed over to it [1] and it should be regulated according to rules laid down by legislation. Until the Imperial Bank has full power to expand its note-issue in response to trade requirements the problem of shortage of trade capital during the busy seasons will not be successfully solved.

Now it has been proposed that the present amalgamation of the three Presidency Banks into the Imperial Bank of India and the handing over of the Government Reserve Treasuries to it, would release more funds for trade purposes

[1] The Government of India contemplates doing such a thing as soon as the note-issue is placed on a stable footing and the metallic backing is increased.

and thus the money-market would become easy. Again it has been proposed to grant to the Imperial Bank the cherished and long-desired privilege of access to the London Money Market. By these two means and by the third, namely, the increase of working capital it is confidently hoped that the problem of shortage of trade capital would be solved. But it must be borne in mind that the trade requirements of India are growing every year and the funds of the Government Reserve Treasuries are too slender to meet the actual trade requirements of India and access to the London Money Market would in pre-war circumstances have been an effective weapon but now the wastages of war have to be repaired and the little capital that will be available will go to the stabilising of the industrial machine whose gear has gone out of order and the London Money Market can ill spare her funds to meet the requirements of the Indian Money Market. So dependence on outside factors should be out of the question and so long as the American Exchanges are against Great Britain, their first attempt would be diverted to home production and the export of materials so as to correct the unfavourable turn of exchange. It is hopeless under these circumstances to expect any relief from this source. The placing of the Treasury balances in the hands of the proposed Imperial

Bank and access to the London Money Market might act as mere lubricants in the present situation. They can never be permanent and radical remedies for the shortage of trade capital.

More capital has to be got out from the pockets of the people. The "banking habit" has to be inculcated. The people should be educated in the economical use of gold and silver they possess. More of India's raw materials should be converted into finished products and not only should her idle hoards of millions worth of gold (if they exist) be utilised but her hoarding of her talents, her intellects, her economic opportunities and her unlimited resources should be discontinued. No doubt this is a question of some time.

But in the meantime the needed elasticity of our currency system should be obtained by some means or other. Sir H. Babington Smith's Committee has recommended that the statutory minimum for the metallic portion of the Paper Currency Reserve should be 40% of the gross circulation and in order to introduce further elasticity so as to cope with the seasonal demand for additional currency in India, it has recommended the issuing of 5 crores of notes on the security of commercial bills of exchange, preferably export bills. This is an experimental measure and it would be embodied as a permanent

feature of our paper currency system, provided it proves a success.

No doubt the State-issuing of notes has led to their popularity and wide acceptance but the note-issuing function is a part and parcel of the banking function and as such it ought to be entrusted to a Central Bank responsible to the Government for its sound and successful management. All authors of the numerous proposals for a State Bank for India, unanimously agree on this point. It is only through the agency of the banks that a note-circulation can ever attain a thorough development throughout our country. Again it is through the agency of a bank that a note issue can be made flexible and responsive to the needs of the community.

8. *One Reserve System.*

Another noticeable feature is the lack of concentration of Reserves. There are two Reserves, so to speak, in India. The various banks have their own reserves, and the Government maintains its own Reserves and it has to perform various duties. It maintains the cash balances in order to do its round of governmental functions. It maintains the Paper Currnecy Reserve in order to ensure convertibility of her Paper Currency. It maintains the Gold Standard Reserve in order to support the Gold

exchange Standard System. But as the Chamberlain Commission has suggested, the paramount duty of the Government is to support the exchange at all times and they conserve all their available portions of stock in order to support the exchange. They have bound themselves definitely to maintain the value of the silver Rupee between certain points and prevent all possible fluctuations beyond these points. When the Rupee's value was fixed at 1*s*. 4*d*. the upper and lower limit were fixed at 1*s*. $4\frac{1}{8}d$. and 1*s*. $3\frac{29}{32}d$. respectively and up till 1917 they have successfully maintained it. On account of rise in the gold value of silver the exchange price of the Rupee has been fixed at 2*s*. 4*d*. sterling and with every variation in the gold value of silver the exchange price of the Rupee is bound to fluctuate, and in fact it has thus altered in the past. But the Government is prepared to maintain the value of the Rupee at this point, that is, they are prepared to give gold when it is wanted for the liquidation of an unfavourable trade balance. They are bound on the other hand to supply silver rupees to satisfy the trade requirements of the people. The rise in the price of silver has forced the Government to raise the rate from 1*s*. 4*d*. to 2*s*. 4*d*. but they have not abandoned the Gold Exchange Standard System. They wish to stabilise the system and fix a permanent exchange value of the rupee which

will have no connection with the gold value of silver.

Thus the Government has a set duty to perform and although the banks may be requiring money sorely they would not be in position to render any great amount of help, for it may jeopardise their own position; besides they will have to perform the various duties that have been mentioned. The placing of the Reserve Treasuries in the hands of the Imperial Bank is contemplated and this would relieve the monetary stringency to a great extent. The handing over of the note issue would lead to the placing of the Paper Currency Reserve in its hands, but this takes some more time and the Gold Standard Reserve, it has been said, should not be handed over to the State Bank or to the Imperial Bank. Mr. J. M. Keynes has argued that the stability of the Gold-Exchange Standard system would be endangered by such a step, namely, the handing over of the Gold Standard Reserve to the State Bank that would be created. His argument is that the Gold Exchange Standard depends on the strength of the Reserve and any unwise dissipation of it by the State Bank would lead to the ruin of the system itself.

But there has been a change of opinion since that time. There is no harm in giving full discretion to the State Bank to use the Gold Standard Reserve provided the Government

carefully supervises the work of the said State Bank. Not only will a sound use be made of Gold Standard Reserve but there is the other advantage that the composition of the Gold Standard Reserve will follow safer and sounder lines than it does now when it is in the hands of the Secretary of State for India. Again official interference with trade should be discontinued but the Government would have to perform the important duty of carefully and judiciously supervising the State Bank. Everything depends on careful supervision.

So there is no *necessity* for the dissipation of our reserves in so many directions and for the performance of the various duties a State Bank or for that matter even the existing Imperial Bank can safely be trusted and the handing over of all the reserves—the Gold Standard Reserve, the Paper Currency Reserve and the Government cash balances—would not be rash or unwise, provided the State Bank or the coming Imperial Bank is under responsible supervision. The handling of such huge sums would be a heavy task but hands would be forthcoming to do this work and "great men will be produced by great times" alone. There is no harm in entrusting these banks with these duties. Only efficient and careful supervision is needed and there is no reason to fear that these funds would be mismanaged.

Unless indeed that day arrives, when all the funds are entrusted into the hands of a responsible person, the problem of the shortage of our trade capital will not be successfully solved. It only remains to add that that day is far off and it has taken three quarters of a century roughly to realise the advantages of a Central Bank. Similarly it will take some more years to make this purely private body more or less a quasi-public institution like the Bank of England. But the Government must not forget its obligation of careful supervision.

They must remember that "the parcellation of the entire reserves among separate self-independent units necessitates a wastefully large proportion of reserve for the efficient performance of the several duties or efficient service with the hazard of unexpected exhaustion of reserves and consequent inability to make good the several contracts."

9. *The Development of the Cheque System.*

One more important feature of the banking system in India is that the cheque-system is not greatly in vogue. It has already been said that the use of the cheque system makes the currency elastic and it was by the development of cheque currency or "deposit currency" as it is styled, that the inelasticity of the English currency system has been remedied. It is true

that an increasingly large number of cheques are passing through the Clearing Houses daily as the table on this page illustrates it.

CRORES OF RUPEES.

Year.	Calcutta.	Bombay.	Madras.	Karachi.	Rangoon.	Total.
1900	139	61	12	..	...	212
1905	175	109	16	3	..	303
1910	222	167	21	7	48	465
1915	323	167	19	13	41	563
1916	480	241	25	15	48	809
1917	472	336	23	20	50	901
1918	744	534	25	24	69	1396

These figures are taken from Table 27 (Appendix), Mr. G. F. Shirras' Indian Finance and Banking, p. 473. A Clearing House has recently been organised in Cawnpore.

The educated classes have now acquired the habit of drawing cheques for large payments.[1] But as in England the cheques should be drawn for small amounts. Before the war, the cheques in England were always drawn for high figures say 3£ or 5£, the lowest denomination being 1£. When the scarcity of silver sent up its price soaring to quite an unprecedented figure and when the "shilling" coin has become actually higher in value as bullion rather than as coin, we find that an increasing use of paper currency is made even

[1] The use of cheques is confined to the Presidency towns and other big commercial centres and European merchants only make a free use of these cheques and the development of "country clearing" in the matter of our cheque system will also increase the popularity of the cheques.

for such low denominations as crowns, half-crowns, ten-shillings and other fractions of a £ (sterling). Owing to war requirements, an increased stamp duty was levied on cheques but the popularity of the cheques was in no way diminished. Thus the habit of drawing cheques has become deeply ingrained in them.[1]

But no such adaptability is to be noticed in our habits and although the Rupee has become very costly to be supplied, the people have not given up embarrassing the Government by their demand for the favourite circulating medium.[2] The demand for the Rupee has gone on increasing and so long as the price of silver is prohibitively high and increasing and so long as the export trade of India is overwhelmingly in favour of India, there is no adequate solution to the Government trouble and if the people persist unwisely in demanding coin the Government cannot postpone the minting of rupees.

Our people should realise the advantages of cheque currency: the cheapness, the ease and economy that arise out of its increasing use. A

[1] The cheque is looked upon as a thing so distinctively British as to be called by the late Lord Avebury the 'Union Jack of commerce.' The habit of drawing cheques is so familiar with the British that the cheque has invaded the domain of the bank note and the bill to such an extent that D. Drummond Fraser says that the "cheque has hurled the note down from its pinnacle of power."

[2] The workmen's belief in metallic currency has to be combated with in the first instance.

well-controlled cheque currency is the most elastic thing of its kind. A well-adpated cheque system dispenses with the use of the currency which might thus become available for the purpose of credit. The development of cheque currency renders the metallic currency a matter of altogether secondary importance.

But there is one fact that diminishes the popularity of the cheques. They have to be drawn up in a set form and a single erasure or mistake would lead to its refusal. Again many of the banks insist that the 10 Rs. limit (in some cases it is 20 Rs.) should be adhered to, *i. e.*, cheques below 10 Rs. cannot be drawn and that figure is too high for many of the Indian people whose standard of living is very low. The characteristic of the Indian people which has distinguished them from time immemorial, is plain living and high thinking and so long as the standard of living is low the payments that are to be made though they be many, do seldom come up to the 10 Rs. limit and therefore cheques are not increasingly made use of even by the educated people.

Again they are to be written in English and as it is an infinitesimally small part of the population that are in a position to correctly draw it up in the English language and the use of the Vernacular on the body of the cheque might lead to its greater use. The removal of stamp

duty[1] on cheques as is the case in America now or reducing it to a great extent would be much appreciated by the public and it would lead to an increased popularity of the cheques. But the cardinal fact that we have to bear in mind is that India is a land of men of small means and of small transactions and we should not expect that too much work can be done by the nimble cheques. As Hartley Withers has said the extensive use of cheques is possible only in a community which has reached a high stage of economic civilisation and is also blessed with a high level of honesty among its members. In India the stability of Government, political security and an efficient administration of justice already exist, thanks to the British Government. But a high code of business morality, increasing density of population, mutual acquaintance and better understanding, continuous production, frequent and regular exchange operations and better accessibility of the banks will bring about a better development of the deposit and cheque system.

10. An improved form of balance-sheet common to all the bankers.

Another feature common to many of the banking institutions in India is that they have

[1] Privilege should be given to draw the cheques to any amount and the present stamp duty should be reduced.

not as yet realised the tremendous advantages that would accrue to them by the 'light' of publicity being thrown on their affairs. If only they parade the facts and figures concerning their rapid growth and institute a comparison of one year's work with the previous year's work, much can be done to attract the deposits of the people. As a matter of fact the balance-sheet of our banks is scarcely intelligible to the ordinary reader. It is clothed in the usual and time-honoured form. It is high time indeed for all the banks to give up this balance-sheet which tells the people next to nothing. They should adopt a 'telling balance-sheet' the figures of which are replete with information and it should be intelligible to every reader. The progress of the bank should be illustrated by facts and figures and unless something tangible like this can be done, the outsider will not be attracted to the bank, much less will he care to deposit his savings therein. The balance-sheet of some of the Indian Joint-Stock Banks like the Central Bank of India is up to the mark in this respect and all the other banks should follow its steps.

The banks should understand that the balance-sheet should explicitly lay down the five following points clearly and they are: (1) the amount of the *authorised* capital, the *subscribed* capital and the *paid-up* capital, the italicised

words being differently printed so as to strike the reader as to the real difference between the three figures and bring to his mind the importance of the paid-up capital. (2) The amount of the Reserve liability should be carefully impressed on the reader. The greater the shareholders' liability the smaller the depositors' risk and so the position of the Reserve liability is a sort of strength to the Bank and the depositor views it as the security which the Bank can afford for his money. (3) The amount of the Reserve fund should be clearly stated. A good amount of Reserve fund should be accumulated. The larger the Reserve fund the higher will be the rate of dividend. It is an addition to the working capital which can be locked up with impunity in the less available but more lucrative forms of advance. Again a large Reserve fund is an evidence as to the prudent management of the Bank and inspires confidence in the minds of the people. (4) The proportion of banks Cash Reserve as against its outstanding liabilities to the public should be clearly stated. The greater the proportion the more secure is it against a run. (5) The amount and nature of its investments should be clearly stated. The rate of interest that accrues to them and the question of their 'ready availability' so as to be a ready possible source of support to the cash Reserve in times of run, should be clearly stated.

It should be a systematic policy on the part of the bank manager to satisfactorily state all these points in such a lucid way as to be easily understood by the least casual glance at it. Very few people can read these reports carefully but their number will be on the increase and it is unjustifiable to expect a customer to come and transact business until the bankers show him that there is adequate security for the sums he places in the hands of the bank.

It must be admitted that a periodical publication of summary statements will not contribute much towards the enlightenment of the public as regards the conditions of a bank but the valuable searchlight of public criticism can probe deep into the facts, can produce much beneficial effect and can bring about a substantial improvement in the bank's position.

Again a comparison of statements of different banks published simultaneously would afford a far reliable basis for criticism and these publications serve as excellent means of self-education for the banks. This mutual criticism of the banks might result in a uniform policy of business management.

So it is highly advisable that all the banks should send in their monthly statements or quarterly statements to the Banker's Journal that may be started one day or other in our country. In the absence of that they ought to be printed

in the local Gazettes. No reform is more desirable than a uniform balance-sheet drawn up on identical lines for all banks and this should be arrived at by a common agreement among the banks.

11. Issuing of pamphlets, to educate the customers and employees.

Another habit which the Indian Joint-Stock Banks have to contract is the issuing of monthly surveys of finance and industry to all its customers just as the Lloyd's Bank and the Barclay's Bank and other big Joint-Stock Banks of London do. The banks should issue private circulars to its customers and branches informing them briefly as to the actual conditions that prevail at the leading industrial and commodity markets and have short and pertinent articles on current topics of finance. This is one of the most potent means to help the branch managers to keep abreast of the times.

12. Deposit Rate.

One more feature which is worthy of comment is that the deposit rate is high in India. Many people have been deluded on account of this and some have come to the startling conclusion that " capital is more productive in India

than elsewhere," as evidenced by the rate of interest it elicits from borrowers. Nothing is far from the truth than this statement. The banks are forced to pay high rates in order to attract deposits and the very fact that even for 'current accounts' of traders these rates are paid (provided they never fall below a stipulated minimum which is Rs. 200 or 300 in some banks) is an evidence of the keen desire of the banker to attract capital. The starting working capital of many of the banks is very low and they are forced to rely on the deposits and hence they are bound to pay high rates. This fact reacts viciously on their banking standard because the banks in order to earn this high rate are forced to take up business which is out of their line and many tempting offers yielding high returns are accepted and this leads to unsound business and so the practice of paying high rates for deposits is to be condemned. A high rate for deposit will lead to hankering after profits while safety is endangered and hence this should be discontinued.

The 'commercial deposits,' *i. e.*, deposits of the trader are practically payable at call and such deposits should not be paid for.

In England the deposit rate is always linked with the bank rate (it is always linked with the bank rate in this manner, *i.e.*, it is 1½% lower than it). The country deposit rate seldom exceeds 4%

and usually ranges between 2 and 3% and 'commercial deposits' are seldom paid for. The Bank of England does not pay on 'fixed deposits' but still it is able to attract the deposits of the banks, of the Government and of all the bigger people. It is the custodian of the nation's Reserve. The absence of such a dignified bank in India which possesses as it were a kind of commercial coat of arms, is a deplorable want and all the Joint-Stock banks scramble as it were for the deposits. There should be a uniform rate of deposits and "commercial deposits" here should not be paid for. The American banks are trying to abolish the deposit rate for commercial deposits and the Indian banks should try to follow suit. But the apparent danger, it might be said is that the depositors would not be encouraged to deposit money. But the commercial class as a whole cannot dispense with their banking account and therefore the fear that commercial deposits would disappear need not be entertained.

Of course a united action on the part of all the bankers is what is wanted and the great advantage of such a step is that these Indian Joint-Stock banks which are forced to pay interest for these deposits need not tout for risky and unsafe business in order to have a rapid turnover on their capital in order to be in a position to pay these high rates of interest.

This might seem a heroic remedy indeed but it is worth trying.

13. Banks should have foreign branches in important monetary centres.

Lastly, some of our Banks must be international banks thoroughly organised and do business of an unimpeachable type.[1] Their first duty should be to help their customers to 'get a footing' in the foreign markets. Secondly, they have to gather trade information of a highly practical order to be distributed among their customers. Thirdly, they should link their domestic with foreign customers and thus serve to expand India's growing export trade and seek a place for marketing her manufactures. They should take up the financing of the domestic traders foreign business, *i. e.*, they should take up the financing of foreign drafts for exporters at all times. It is true that the Exchange Banks are now doing this business but there should be a systematic policy on the part of the Indian Joint-Stock Banks[2] to help

[1] In case the Banks cannot afford to have foreign branches they should establish a network of alliances with foreign banking houses and our banks should try to control the foreign institutions just as German Banks have obtained control over Italian business. As Prof. Hauser says "Germany has affected the surprising tour de force of securing her financial supremacy in foreign countries while locking up very little of her own capital."

[2] *They should make it a systematic policy on their part to insure stability of foreign currency transactions by means of forward contracts. The present Exchange Banks do not specialise in this business.*

the domestic trader to get into living touch with the foreign market and it is undoubtedly true that "trade follows the bank as much as the flag."

It is high time indeed for our banks to learn and imitate the tactics of the German banks. They followed deliberately 'a policy of peaceful penetration' and by granting 'long credits' to merchants succeeded in thrusting heavy stocks of goods on the foreigner. It was by this means that they succeeded in expanding German industries. The policy of granting 'long credits' might be questioned and it might be true that many of the German banks might have attempted what the English banks have called "adventuresome banking" but they have succeeded in introducing their home manufactures in many foreign countries which would not have been the case but for their daring policy.

But now America even has deliberately undertaken such a policy. The National City Bank of New York has 45 branch banks in its foreign system and is contemplating an expansion of its business in new fields. They have a number of "foreign trade experts" whose sole business is to furnish the domestic exporter with the information of the state of foreign customers, the nature, extent and volume of their business and lastly, the bank finances the foreign drafts of the American exporter. The American

exporter opens a current account with the bank and turns over all his foreign drafts to this bank for collection by its foreign branches and this sum is credited to the customer's account. The customer makes an agreement that the bank should 'accept' all the "clean" drafts drawn upon the bank itself to a certain limit which is determined by the volume of his export trade and thus the domestic trader finances himself for the short period in the most economical manner and this policy has been named "refinancing by acceptance" and it is by this means the bank encourages the foreign trade business.

The present Imperial Bank has been given the privilege of having a branch in London and the customers would obtain much benefit out of that useful step. But it should open its branches in New York and other great financial centres and bring about new banking relationships with these countries. Until then our domestic traders will have no fair chance to push themselves into the foreign trade areas. The financing of our foreign trade and the systematic encouragement of our trade should not be left into the hands of foreign banks (the Exchange Banks) as is the case now.

There is no reason why the big Indian Joint-Stock banks should not take up exchange business and finance the domestic trader's foreign

drafts. The jealousy of the Exchange Banks would stand in the way but there is no reason why they should resent fair competition and competition with such strong institutions would place their business on safe and sound lines. The Tata Industrial Bank has taken up successfully the management of exchange business and other banks should follow its footsteps. Competition between several banks to do this business means the exporters can sell their bills at a higher price and importers and general public to purchase their drafts at lower prices than formerly.

It is not only by transacting exchange business that a bank, by having a foreign establishment attached to it, profits. There are numerous other advantages that can be reaped by the bank which has a foreign department of its own in the big monetary centres of the world.

The first and foremost advantage which the clientele of the bank reap, is that it affords facilities for the transaction of the whole of their banking business with the bank.

The foreign department serves as a good auxiliary through the medium of advertisements and personal invitation to attract depositors. The foreign department of the bank obtains much prominence for the parent bank among foreign bankers by whom its foreign exchange is purchased and among the other bankers of the world with whom accounts are kept and by

whom drafts against its letters of credit are negotiated.

The foreign department of the bank practically transforms the parent bank into an international banking institution, thereby vastly expands its field of usefulness and places it in close touch with the long-established industrial and monetary centres of the world.

The foreign department of the bank enables the parent institution to cultivate a bond of friendship and comradeship with the master financiers of the old world whose opinion as regards Indian financial topics will be of much value to the Indian banker.

The foreign department of the bank will enable the parent institution to place funds at remunerative rates of interest, whenever an opportunity affords itself, in the other money markets of the world, by the purchase of "Foreign Bills of Exchange" as an investment or permits the bank to borrow money at favourable rates in the money markets of the world by issuing finance bills.

These are some advantages of having a foreign department which can be reaped if it is soundly and conservatively managed. Foreign commerce benefits the Indian banks by furnishing for the funds in their hands a legitimate and genuine field for use and thereby lessens the temptation to enter into a field of speculative capitalisation.

Finally, the banking crisis of 1913-15 has taught us that our banking system was deplorably lacking in stability, adaptability and initiative which are the essential requisites of a sound system of banking. Many of the "swadeshi banks" have gone down and the remaining have been given such rude shocks as to shake them to their very foundations. The system of rules governing the Presidency Banks although they have become antiquated and are more honoured in their breach than observance, have been still retained and much of the rigidity of the present system is solely attributable to the restrictions hampering the freedom of the Presidency Banks and even though they might entertain a pious wish to render more help to trade, yet they are bound down to a routine of duties. The other Banks which are doing this duty have taken the Presidency Banks as their model and banking business now is the same as it was several years back. It has already been remarked that the Clearing House system has failed to rise equal to the trying circumstances of 1913-15 and everybody tried to take care of himself and no aid was given even to the deserving banks. Little did they dream that such a course of action would involve them all in a common ruin.

In order that India might be proud of her banking system, the Indian Joint-Stock banks would have to perform in future a

straightforward, upright and legitimate banking business. They should abstain from speculation. Not only should they abstain from such a dangerous policy but they should check speculation on the part of the public who occasionally take ' flyers ' on the Stock Exchange with the help of the banker's money. They should have a genuine desire to help the public. They should always encourage legitimate business and prudent enterprise. They should be wise in spreading their investments over a large clientele and should never commit the fatal mistake of laying "all their eggs in one basket." They should never concentrate their resources into a few concerns. This close identification of their interests with others would lead to their ultimate financial ruin. They should adopt a liberal policy of affording accommodation to the real, needy and deserving tradesmen. They should always insist on their customers being treated with utmost courtesy and politeness. They should have polished manners and they should acquire the courtesy, grace, politeness and mild yet firm opinions, in short all those traits of character and behaviour which the Westerners style " banking manners." The banks should ultimately realise ' that the customer's prosperity is the banker's gain and they should always be acting firmly when the customers expect undue facilities at their hands.

The banks should take care to weed out numerous weak clients and refuse to run any risk with those who fail to provide additional satisfactory securities when they require additional accommodation. The banks should rigidly follow the "no risks" system. The banks should be careful in granting uncovered credit. Too hasty and too prolific concession of credit, long-term credit, neglect of the principle of division of risks and faulty selection of cover, excessive loans, overdrafts, loose and unbusinesslike methods of accounting, excessive borrowings by the banks, investment of bank's funds in securities not authorised by law, charging of usurious rates of interest, unlawful loans on real estate, excessive loans to officers, clerks, employees of the bank employing them, loans to bank's officers or employees and others through "dummies" loaning money directly or indirectly upon the bank's own stock, transaction of a brokerage or commission business by the bank's executive offices should be scrupulously avoided. Over and above all this the banks should realise that they are not mere dividend paying machines. This is but to take a base and mundane view of their function. They should realise the lofty mission they have to perform. They should be alive to the fact that it is they that shape the industrial destiny of the nation. They should be conscious of the fact that they make

or mar the material future of their nation. They should not forget the late Mr. Conants' remark that they are "the arbiters of the fate of nations." Unless and until the Indian Joint-Stock banks fully realise this loftier, nobler and higher conception of banking business, these banks will not be in a position to fulfil their mission and sacred duty to our country.

The future of banking business in India will depend mainly on the character of men that will stand at the helm of these leading enterprises. All will be well, if these leaders possess the necessary caution. With a more common and better understanding of their business and with a strong sense of solidarity prevailing amongst them they can work wonders and surely achieve thousand times more of what they have attained now.

APPENDIX.

TABLE I.

Year of Banks' Liquidation.	Number of Banks Liquidated.	Authorised Capital Rs. (00,000) omitted.	Subscribed Capital Rs. (00,000) omitted.	Paid-up Capital Rs. (00,000) omitted.
1913 (2 months)	12	274	164	35
1914	42	709	245	109
1915	11	56	7	4
1916	13	230	20	4
1917	9	76	35	25
Total ...	87	1345	471	177

TABLE II.

Table illustrating the importance of Banking failures.

1913 (November and December) saw the beginning of the crisis.

Year of Registration.	Name of the Bank with its Head office.	Authorised capital Rs. (00,000) omitted.	Subscribed capital Rs. (00,000) omitted.	Paid-up capital Rs. (00,000) omitted.	Deposits Rs. (00,000) omitted.
1901	The People's Bank of India (Lahore).	35	22	12½	125
1904	The Amritsar Bank (Lahore)	5	5	1½	28
1906	The Lahore Bank (Lahore)	5	44 5	1	29
1908	The Doaba Bank (Amritsar)	5	3	65,845	9
1911	The Indian Exchange Bank (Amritsar).	5	17,310	13,410	2
1898	The Bombay Banking Company	5	2	1	15
1909	The Credit Bank of India	100	50	10	51
1910	The Kathiawad and Ahmedabad Banking Corporation.	100	75	7	23
	1914 (Banking failures continued).				
1906	The Hindusthan Bank (Multan)	10	10	2	10
1906	The Industrial Bank of India (Ludhiana).	5	1	54,208	3
1909	The Public Banking and Assurance Company (Multan).	10	17,300	1964	...
1911	The Bank of Peshwar (Multan)	5	4	1	2
1910	The Popular Bank (Rawalpindi)	50	20	3	18

				Rs.	
1911	The Bank of Rajputana (Punjab) (Ambala).	5	2	70,501	8
1913	The Solar Bank (Lahore)	100	1	8,500	...
1907	The Orient Bank of India (Lahore)	25	10	71,354	...
1904	The Panjab Co-operative Bank (Lahore).	25	10	8	43
1912	The Bank of Asia (Lahore)	25	4	32,099	...
1906	The Indian Specie Bank (Bombay)	200	150	75	270
1913	The Union Bank of Commerce (Bombay).	50	.	..	...
1918	The Commercial Bank of India (Gazipore).	10	5,775	4,250	..
	1915 (Banking failures).				
1913	The Amritsar National Banking Corporation (Amritsar).	10	1	1	1
1912	The Standard Bank of Bombay	20	20	10	...
1912	The Cosmopolitan Bank (Bombay)	20	1	1	...

The first lesson to be learned from these tables is the startling difference between the authorised, subscribed and paid-up capitals. The low proportion of paid-up capital which is roughly 13% of the authorised capital should be noticed.

The second lesson is that the storm centre was in the Panjab where the banks that arose out of the Industrial and 'swadeshi boom' of 1906, came to grief.

The third lesson is that the banks have assumed astounding and misleading titles in many cases.

Both the tables are taken from the Banking Blue Book published in 1919 by the Director of Statistics.

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